

# FINANCIAL TIMES

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ICI joins the branding club  
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**Today's surveys**  
Credit management & World motor industry  
Separate sections

World Business Newspaper TUESDAY MARCH 5 1996

## Hewlett-Packard fuels computer war by cutting prices

Hewlett-Packard signalled a deepening business computer price war when it cut prices of its personal computer servers by up to 21 per cent. The cuts follow Compaq Computer's announcement last week that it would reduce prices on its commercial desktop PCs and PC servers. International Business Machines is expected to announce further reductions in the US this week. Page 16; IBM swoops on Data Sciences, Page 22

**Left unites in Russia** Russia's leftwing factions united to challenge Boris Yeltsin and reformers in the June presidential election when endorsements for Communist party leader Gennady Zyuganov came from several powerful party leaders. Page 4

**Chibank goes to Brussels** on post dispute: Tensions caused by the growth of mailing from low-cost countries were highlighted when Chibank appealed to the European Commission to prevent the German post office from imposing an extra charge for mail sent from the Netherlands. Page 16

**German energy monopolies threatened:** Germany's cartel office ruled against a contract giving electricity company RWE exclusive rights to supply energy to a town, in a decision that threatens local energy monopolies. Page 4

**Shake-up at Alitalia:** Domenico Campella's first day as chief executive of Alitalia was marked by sweeping management changes at Italy's troubled national airline. Page 3

**Indonesian banking arm of Suez:** The French financial and industrial holding company, reported a return to profitability in 1995. But the figures concealed a sharp fall in operating profits. Page 19

**Uefa gives in on transfer fees:** Uefa, the European football association, ended its defence of the fee system for cross-border transfers of out-of-contract players. Page 4; TV sports, Page 10

**UK to harden EU stance:** The UK government is to strengthen its sceptical approach to European Union policy with a pledge to oppose increases in the European parliament's powers. Page 11

**China to endorse economic plans:** 3,000 deputies at China's annual parliamentary session will be asked to approve continued economic plans to bring inflation below 10 per cent and maintain growth at about 8 per cent to 9 per cent. Page 16

**Pharmacia & Upjohn:** the pharmaceuticals company, is to shut 40 per cent of its manufacturing sites to make annual savings of \$400m. The company, formed last November by the merger of Sweden's Pharmacia and Upjohn of the US, is also cutting 20 per cent of its research projects. Page 17

**Far East shipping routes planned:** Four container shipping lines, in a consortium known as the Grand Alliance, plan a Europe-Far East service involving 34 ships. Page 5; Lex, Page 16

**Capital markets activity at record:** The OECD said borrowing on the international capital markets set a record last year with overall financing activity up 30 per cent to \$1,258bn. Page 7

**Major warns Beijing on HK:** UK prime minister John Major made a tough speech warning against Chinese breaches of the Sino-British pact on Hong Kong. Page 8; Tough talk, Page 11; Editorial Comment, Page 15

**ICI buys paint company:** Imperial Chemical Industries, the UK-based chemicals company, made its first big move into Latin America with the \$300m purchase of Brazil-based paint company Bunge. Page 17; A successful ingredient, Page 14

**Bids for Czech phones made:** Consortia involving France Telecom and Telenor have each made the highest bids for a stake in a mobile telephone licence in the Czech Republic. Page 17

**Beetles turn down \$225m comeback offer:** The three remaining Beatles - Paul McCartney (left), George Harrison and Ringo Starr - have rejected a \$225m offer from a group of US and German entrepreneurs to stage a "comeback" world tour. McCartney said the three did not want to reform the band without John Lennon, who was shot dead in 1980, adding that the value of the proposed deal was "ridiculous". Page 10

**Cricket World Cup:** The West Indies recovered from their surprise defeat by Kenya by overthrowing Australia's 299-6 with four wickets left in Jaipur.

STOCK MARKET INDICES		GOLD	
New York: Dow Jones Ind. Av.	5,581.72 (+45.18)	New York: COMEX (Apr)	\$389.2 (400.2)
NASDAQ Composite	1,088.13 (+10.05)	London: Gold	\$385.6 (388.5)
Europe and Far East			
CAC40	2,417.59 (+13.23)		
FTSE 100	2,758.8 (+15.9)		
Nikkei	20,853.88 (+104.73)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	5 1/4%	New York: COMEX (Apr)	\$1.47375
3-month T-bill	5.021%	FTSE 100	2,758.8
Long Bond	5 1/2%	SPY	1,207.7
Yield	5.369%		
OTHER RATES		STERLING	
UK 3-month interest	5 1/4%	London: £	1.5222 (1.5224)
UK 10 yr	5 1/2%	DM	1.4738 (1.4739)
France 10 yr	4.75%	FF	5.8776 (5.8774)
Germany 10 yr	4.75%	¥	120.15 (120.14)
Japan 10 yr	4.75%		
NORTH SEA OIL (Argus)		TALFALGAR HOUSE	
Brent 15-day (Apr)	\$17.44 (17.61)	Talfer & close	¥115.276

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## Israel in tough response to blast

### Cabinet acts against Hamas as 12 die in Tel Aviv bomb attack

By Julian Ozanne in Jerusalem

The Israeli cabinet last night claimed the right for its troops to enter Palestinian self-rule areas in its fight against Islamic terrorists after a fifth bombing attack in nine days.

The suicide attack, which left at least 12 people dead, plunged the Middle East peace process deeper into crisis. The attack, outside a crowded shopping mall in the commercial heart of Tel Aviv, marked the most intense and bloody period of terrorism the Jewish state has suffered.

Israel recalled a delegation sent to the US for peace talks with Syrian officials. Meanwhile, US president Bill Clinton condemned the "hysterical, determined, fanatic" forces behind the bombings and said they must not be allowed to undermine a "lasting peace" in the Middle East.

Yesterday's attack, a day after a devastating bus bombing in Jerusalem killed 19, undermined the Israeli government's inability to stop the carnage on the country's streets and dealt a potentially fatal blow to the chances of the Labour-led coalition in an election called for late May.

The bombing came despite a series of measures announced on Sunday by Mr Shimon Peres, the Israeli prime minister, which he described as "an all-out war" against Islamic terrorism.

Mr Peres, who was jeered at the Tel Aviv bomb site yesterday by angry youths chanting "Peres, you're next", held an emergency cabinet meeting after the attack and was expected to announce sterner measures including the deportation of Moslem activists and the limited re-entry of Israeli troops into Palestinian-controlled territory. The latter move would be a breach of the Israeli-Palestinian peace accords.

Mr Peres appealed to Israelis "do not lose faith", but pollsters predicted a backlash against the government, piling pressure on Mr Peres to take perilous steps which could undermine the fragile peace process.

Officials said the government was in the extremely difficult position of being forced to take steps to calm an outraged public without any guarantee the measures would end the attacks. The measures already taken include a closure of Israel's borders with Palestinian territories, demolition of homes of confirmed Islamic guerrillas and the re-erection of a plan to separate Arab and Jew by security fences.



Part of the damage caused by the latest suicide bombing in Israel which killed at least 12 people in Tel Aviv and wounded many more. Picture: AP

Deployment of Israeli police and troops in battle gear on the tense streets of Jerusalem has already made Israel seem like a country preparing for war.

An unidentified caller claiming to speak for the Hamas Islamist movement told a radio station yesterday that the Tel Aviv attack was carried out by an activist from Palestinian-controlled Ramallah in the West Bank as a response to Mr Peres's declaration of war on Hamas.

He warned that if Israel took further measures, Hamas would strike again. A senior Israeli security official said Hamas had hundreds of extremists waiting to carry out suicide attacks.

The terror campaign has also increased pressure on Palestinian president Mr Yasser Arafat who knows his political future and dreams of a Palestinian state rest on a Labour victory in May. Advisers said he was nervous that further confrontation with Hamas could ignite civil war.

Terror kills Peres's hopes, Page 7  
Editorial Comment, Page 15

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## Japanese opposition blocks \$6bn bailout package

By Gerard Baker in Tokyo

The Japanese government's attempt to secure parliamentary approval for a scheme to spend ¥655bn (\$6.45bn) of public money on a bailout of the country's bankrupt housing loan companies descended into angry farce yesterday.

As the plan entered its final phase, members of the opposition New Frontier party barred government officials entry to the committee room in which the crucial vote was to be held.

The budget committee had been due to come to a decision on the scheme yesterday. But government officials, clearly shaken by the protest, indicated they would delay efforts to pass the budget until today.

Last night there were signs that the display of defiance might have forced the ruling coalition to consider last-minute changes, so as to make the plan more palatable to the public.

The founder banks of the bankrupt housing loan companies, or *jusen*, reportedly agreed to an additional bailout contribution of ¥500bn. The banks are said to have agreed to attempt to increase their profits over the next five years by ¥1,000bn through internal restructuring efforts. Half of that extra profit would then be remitted to the government through tax levies.

However, the scheme is unlikely to impress the opposition or the public because it represents little more than unenforceable pledges by banks to improve their own performance.

Earlier, cabinet members had met leaders of the Kaidanren, the country's leading business federation, in an effort to increase the share of the costs taken by the banks.

All day, groups of NFP members worked shifts to block

Continued on Page 16

## Spanish market falls steeply after election

Disappointment over Aznar's narrow victory hits trading

By Tom Burns in Madrid

The unexpectedly narrow electoral victory by Mr José María Aznar's centre-right Popular party (PP) in Sunday's general elections prompted the biggest fall on Madrid's stock exchange since the August 1991 coup attempt in Russia. It also jolted Spain's bond and currency markets.

"This electoral result was worse than the worst pessimist had foreseen," said the chief executive of a Madrid securities house. "The markets were betting on voters putting in a strong government and they've now got one that is weaker than the one before."

The PP won 156 seats, 20 short

of an absolute majority and three fewer than the number held by Mr Felipe González's outgoing Socialist government.

Mr Aznar will now be forced to seek an alliance with Catalonia's *Convergència i Unió*. The CIU is the nationalist party which had formerly backed Mr González, but which withdrew its support, blocked the 1996 draft budget and forced Sunday's poll.

Mr Aznar said he was already in contact with the Catalan party and with other minority nationalist groups represented in the new parliament in order to build a governing majority. "The [mar-

ket] developments indicate the very clear necessity of having a stable government as possible," the PP leader said.

Madrid's Bolsa, however, tum-  
 Elections round-up Page 2  
 Editorial Comment Page 15  
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 World stocks Page 36

of opinion polls predicted would be a clear PP win. The general index closed at 329.03 against Friday's 345.87, which had been a two-year high.

Initial disappointment over the electoral result was less pronounced on Spain's bond market where the 10-year yield differential over the German bund widened to 363 basis points from 331 at the close on Friday. On the currency markets, the peseta weakened to Ptas85.20 to the D-Mark in Asia, a full peseta more than on Friday's trading, before steadying to Ptas84.90.

The main concern among analysts is that Mr Aznar is now in no position to announce immediate fiscal austerity measures to impress the markets, and that radical reforms of the domestic economy may be indefinitely postponed.

The policy programme of an Aznar government will have to await negotiations with its possible allies over the coming weeks. "The PP is going to have its work cut out getting a deal from the Catalans," said a London-based fund manager. "The outcome is likely to be a softer programme than the one Aznar intended and than Spain requires."

## Trafalgar House agrees to £904m bid from Kvaerner

By Andrew Taylor and Tim Burt

Trafalgar House, the struggling UK construction, engineering and shipbuilding conglomerate, agreed yesterday to a £904m (£1.4bn) takeover offer from Kvaerner, the Norwegian engineering and shipbuilding group.

The recommended deal will trigger fresh disposals of about £750m of Trafalgar and Kvaerner businesses, likely to include the sale of Cunard, the UK group's luxury cruise line which owns the QE2.

Although Kvaerner hinted that it could integrate Cunard into its existing shipping activities, most industry analysts named the subsidiary as the part most likely for disposal. The attraction of Trafalgar to Kvaerner is its international construction and specialist engineering businesses and its offshore oil and gas fabrication interests based mainly in the UK sector of the North Sea.

Mr Erik Tonseth, Kvaerner chief executive, said: "We feel comfortable with the cruise industry but Cunard falls outside our core businesses."

If it is sold, proceeds from the Cunard disposal would help offset £750m borrowings being raised by Kvaerner to acquire Trafalgar.

"I know it's late, but I'd like some sushi. How far do I have to go?"



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## NEWS: SPANISH ELECTIONS

FT Reporters look at the aftermath of Sunday's inconclusive elections

## Spain faces period of deal-making

By David White in Madrid

Spain has entered a new era after Sunday's general election, but not the kind that opinion polls were predicting.

The centre-right Popular party's victory celebrations ended with a hollow ring. The party had won, for the first time since it was founded in the early post-Franco years, but was left 20 seats short of a parliamentary majority. Spain now faces a period of deal-making and potential instability.

The PP was aiming to re-create a political balance like the one obtained in the late 1970s by the now-defunct Democratic Centre Union (UCD). The UCD never won an outright majority but had 47-48 seats more than the next biggest party, the Socialists, and could govern on its own.

Instead, the election has recreated the situation of the last parliament, except that the positions of the main parties are reversed and the distance between them - now just 15 seats - is even narrower.

Thus, Mr Jordi Pujol, 65-year-old president of the Catalan regional government and leader of Convergència i Unió (CIU), a party which does not stand for election anywhere except in Catalonia, once more becomes Spain's power-broker.

His party's backing was just enough to give the Socialists a working majority after the last elections in 1993, and its withdrawal precipitated Sunday's election. Now the support of CIU's 16 deputies in the new

Congress is indispensable for Mr José María Aznar, the PP leader, to form a stable government or even pass an investment vote.

Mr Aznar can look for allies among other regional parties - a Canary Islands group with four seats, a conservative Valencia party with one. But these would not be enough to save him from defeat if both the Socialists and the Communist United Left voted against a PP government. Between them, Socialists and United Left will have 162 seats, six more than the PP. To be safe, the PP needs support from about 30 deputies in addition to its own.

An alliance with the Communists is out of the question. The PP therefore has no choice but to do what the Socialists did three years ago and turn to CIU and the Basque Nationalist Party (PNV), which has five seats. Like the Catalan party, the PNV initially supported the Socialists in the last legislature but was unwilling to go into a formal coalition. Both parties are reluctant to go into a coalition now with the PP, which has fought tooth and nail to try to win away their moderate middle-class power base.

Mr Aznar said yesterday that contacts with both parties had already begun, but he has a lot of fence-mending to do. Mr Pujol is likely to put forward a tough set of demands. Both the Catalan and Basque parties are deeply suspicious of the PP and the centralist traditions of the Spanish right. They do not want their regions to be con-

sidered just like any other region, such as Madrid or Murcia. Mr Pujol will negotiate hard on arrangements for financing regional governments.

As a business-oriented party, CIU has common ground with the PP in its economic outlook, but can be expected to press the demands of small and medium-sized companies, such as lower social security costs and making it easier to sack staff - proposals that do not feature in the PP's electoral programme.

## The positions of the main parties are reversed, and the Catalan chief again becomes a power-broker

Revellers outside PP headquarters on Sunday night chanted a favourite anti-Pujol refrain, attacking measures for promoting the Catalan language: "Pujol, enano, habla castellano" ("Pujol, little man, speak Spanish if you can").

But Mr Pujol will be feeling strong after the election. His party lost one of its seats but suffered less damage than expected, while the PP failed miserably in its attempt to conquer new ground in Catalonia. The PP had expected to win at the very least three extra seats in the region, and to take second place in Socialist-con-

trolled Barcelona, ousting Mr Pujol's party. It did neither. Although the PP tried to adopt a more Catalan-friendly image, Catalan voters preferred to stick with the parties they have always supported. The Socialists strengthened their previous lead in the region, gaining a seat. With CIU they continue to share dominance of Catalan politics.

The effect of this is to guarantee Catalonia a big role in national politics - both through Mr Pujol and through the Catalan branch of the Socialist party, which will see its influence strengthened as a result of its recent success.

Nationwide, the Socialists and the PP took 76 per cent of the vote between them, the highest proportion to date. The United Left, although it increased its seats from 18 to 21, performed disappointingly, failing to reach the Communist party's previous record. In Madrid the PP reinforced its position ahead of the Socialists, but by less than expected. It also fell short of expectations in Andalusia. The Socialists, although losing seats to the PP, held on as the main party in both Andalusia and Extremadura. In the predominantly conservative Valencia region, the PP's advance was halted.

In its strongholds, the PP extended its lead in the north-central Castilla-León region but elsewhere appeared to have reached its ceiling. In strongly conservative Galicia in the northwest, it lost one of its seats, while a leftwing

regionalist party, the Galician Nationalist Bloc, is making its first appearance in parliament with two deputies.

The Basque region produced a draw between the PNV, the Socialists and the PP, with five seats each. The radical Herri Batasuna party, which supports the Euzkadi separatist organisation, won 180,000 votes, enough to keep its right to two seats.

The day's biggest losers were the opinion polls, on which the media and parties spent about Ptas600m (\$5m). They had indicated a 6-11 percentage point lead for the PP. Even the exit polls gave a PP win of 5-6 points, when the actual gap was less than 1.5 points. Apparently, Socialist voters are more sheepish about admitting their intentions than conservative or Communist voters. But how the polls missed the mark so widely (three years ago, two exit polls got the winner wrong) is a mystery.

The PP did score strongly, however, in voting for the senate, where it won 111 of the 208 seats up for election, against 81 for the Socialists. This leaves it with an absolute majority of 132 out of 286 seats.

But what counts is the congress. There, the result has never been so close.

A policeman was killed by a car bomb yesterday morning in Irun near the French border, stirring renewed fears of an escalation in Basque extremist violence during the political uncertainty created by Sunday's general election.

## The PP and Catalans: a shotgun marriage?



José María Aznar  
Popular party (PP) leader  
Photo: Reuters

"We are prepared to govern. We will talk with everyone; that has already begun."

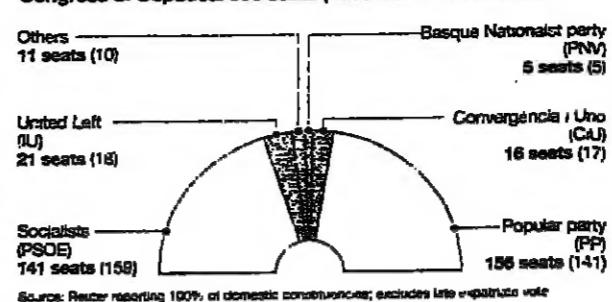
"It's up to (Aznar) to explain first what his plans are, and we'll be waiting."



Jordi Pujol  
Catalan coalition (CIU) leader  
Photo: Express

## Parliament: post-election balance of power

Congress of Deputies: 350 seats (1993 results in brackets)



Source: Reuters reporting 100% of domestic constituency; excludes late-investiture vote

## Forming a government: the constitutional timetable

- March 27 New parliament meets to elect speaker.
- March 28 Once speaker is elected, the king consults leaders of all parties and proposes to speaker a candidate to head new government. In the past, the candidate has been leader of party with most parliamentary seats, although constitution allows the king to propose anyone he chooses.
- Week of April 6 Candidate must gain outright majority of 178 in the 350-seat Congress of Deputies in a two-day investiture debate. Should he fail, he can take office with a relative majority in a second vote to be held within 48 hours.
- If the candidate fails to win second debate, the king holds new round of consultation to propose another candidate, a development which has yet to occur.
- Should no candidate obtain the confidence of the house within two months of the first vote, parliament is automatically dissolved and new elections held.

## Andalusia local vote bucks the national trend

By Tom Burns

Local elections in Andalusia on Sunday underlined that the backward south of the country is forever Socialist. The polls in Spain's most populous region, which were held simultaneously with the general election, re-elected premier Mr Manuel Chaves with an improved, near-outright majority.

Mr Chaves - a long-standing close associate of the outgoing prime minister, Mr Felipe González, who himself was born in the regional capital Seville - had been forced, like Mr González, to call the regional poll because his minority government had failed to pass its 1996 draft budget.

The Socialist share of Andalusia's regional vote increased from the 38.1 per cent it won in the 1994 poll to 44.6 per cent, and Mr Chaves won 32 seats in the 109-member parliament, up from 45 two years ago. The Popular party (PP) won 40 seats, one less than it had in 1994; the communist-led United Left (IU) had its 20 seats reduced to 13; and a minority regionalist party won four seats.

The Andalusia elections confounded the opinion polls, which had indicated a PP victory in the local vote, even more than the results of the national elections. The PP vote was largely confined to the bigger towns and support for IU crumbled as the leftwing vote rallied to the Socialist party.

In the general elections in the region, by contrast, the PP gained four seats for a total of 24, while the Socialists lost five to 32.

Andalusia, which has been run by the Socialists since the local parliament was first elected in 1982, has a per capita gross domestic product that is only 69 per cent of the national average and an unemployment level that stands at 30 per cent, 10 points above the national average.

## A triumph for the loser, complications for the winner

By David White

A "calm, normal man" was how Mr José María Aznar, seated in a large leather armchair, described himself in his last party political broadcast at the close of the election campaign.

But the same PP leader who faced an interview with Spanish state television the day before was anything but calm. He would not go to the studio, where Mr Felipe González, the prime minister, was due to be interviewed immediately afterwards. Instead, the studio had to be moved to him, by truck.

Thus it was that the two men who dominated the Spanish election battle - more like a presidential contest - never crossed each other's path during the campaign.

Three years before, after a debate with Mr González, Mr Aznar lost, unexpectedly and by a margin of 950,000 votes. This time he would not go into a debate unless the Communist leader, Mr Julio Anguita, was there to harry Mr González, too.

Mr Aznar was setting his target high - going not only for a win but a big enough win to avoid having to make pacts with other parties. Now

the man set to be Spain's fourth elected prime minister since democracy was restored 30 years ago has had to change his tune.

"The greater the consensus, the better it will be for the stability of Spain and for achieving economic targets," he said, referring to the hard task of bringing Spain into line with the conditions set for joining the European single currency.

He has promised that, unlike Mr González, he would quit after two four-year terms. Yesterday he was anxious to convince Spaniards he could last through four years with-

out being forced to call another election.

The final party political broadcast was an effort to build his image as a credible prime minister, conversing in a fireside-chat manner about himself, his hobbies, his family and his ambitions for Spain.

Mr González's questioning of his suitability is something that has obviously cut Mr Aznar to the quick. Never, says Mr Aznar, has a politician had to receive as many insults as he has. This is a claim the Socialists would contest, after all the attacks against Mr González in the

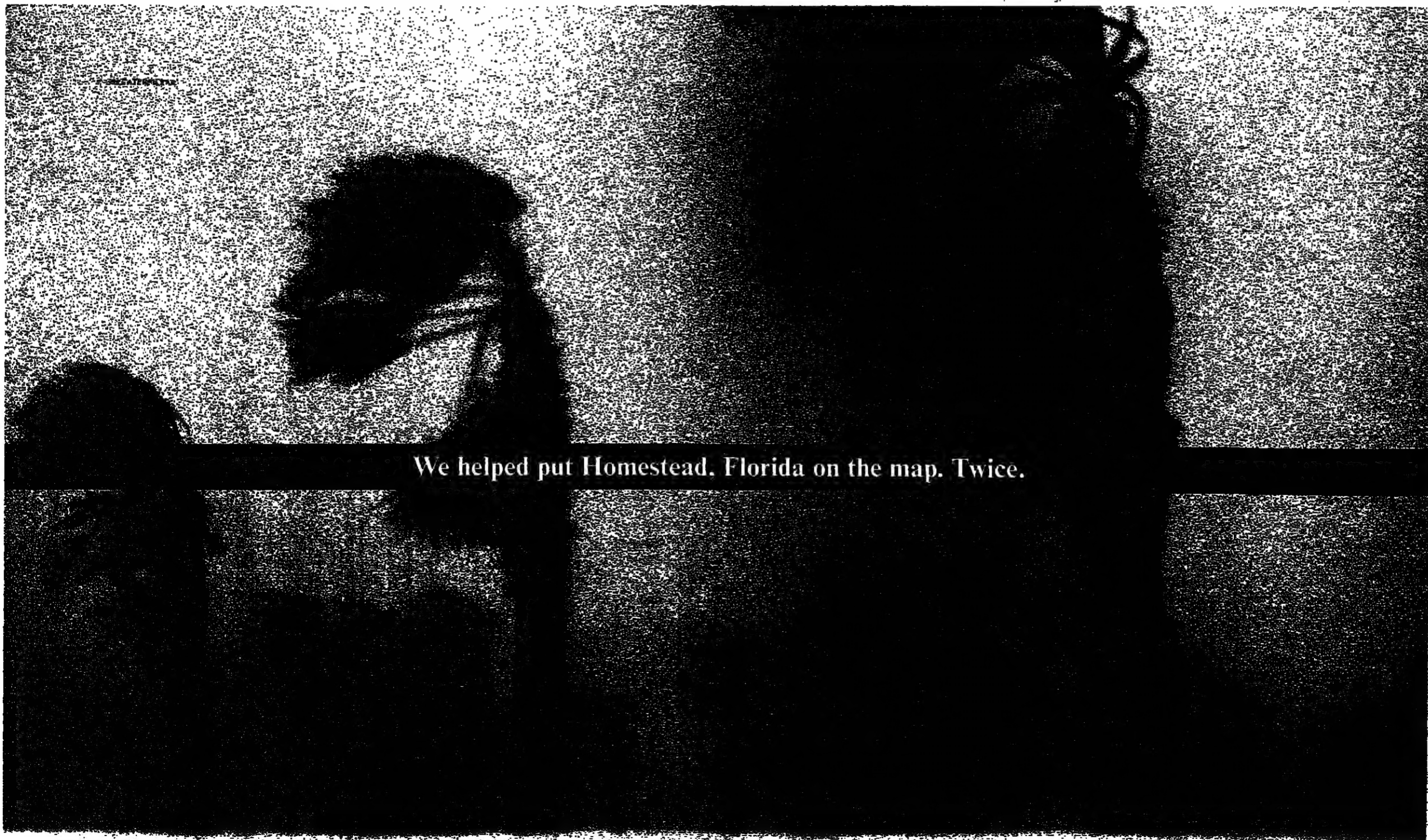
last two years over corruption cases, "dirty war" crimes and alleged abuses of power.

For Mr González Sunday's result was a personal triumph. From his beaming reaction it seemed as if the Socialists had won, although they had lost 18 seats and their position as leading party, held since their first victory more than 13 years ago.

Returning to the campaign trail in a way he had not done for years, Mr González picked the Socialists up from the 31 per cent of the vote they scored in local elections last year to over 37 per cent. Evidently, the

González magic, and his easy way of engaging his listeners, still work. So does the lingering spectre of Francoism, in contrast to which Mr González presented the Socialists as the representatives of "tolerance" and "modernity".

The Socialist campaign, at first vitriolic in its depiction of the Spanish right, improved in the later stages. Mr González's closing broadcast, a stark contrast to Mr Aznar's, was an urgent appeal aimed at bringing out diffident voters and dissuading them from defecting to Mr Anguita. He succeeded in both.



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## EUROPEAN NEWS DIGEST

## Reform at top of Alitalia

Sweeping management changes were introduced yesterday at Alitalia, Italy's troubled national airline, on Mr Domenico Campella's first day as chief executive. Mr Campella set up a five-person executive to replace the previous structure of 14 directors. Mr Campella was appointed last month with a brief to rationalise the state-controlled airline's operations, and a confrontation with the unions, allowing an L1,500bn (\$955m) capital injection acceptable to the European Union. He has recently running the Rome Airports.

The shake-up makes the position of Mr Renato Roverso as chairman increasingly irrelevant. He has been under strong pressure to step down since last Friday's decision by Iri, the state holding company owning 90 per cent of Alitalia, to end its battle with Mr Roberto Schisano, the chief executive fired last year. Mr Roverso was reported to have favoured legal proceedings against Mr Schisano, which were dropped last week.

Robert Graham, Rome

## Italy TV football protests grow

Protests continued yesterday against the award of a L640bn (\$407m), three-year contract for television coverage of Italian League football to two small channels owned by Mr Vittorio Cecchi Gori. A viewers' association, Adsubef, said it had petitioned magistrates to investigate last week's award of the contract on the grounds Mr Cecchi Gori's two channels - Videomontecarlo and Videomusic - did not cover all of Italy. Adsubef also claimed a conflict of interest between Mr Cecchi Gori's position as a television owner and proprietor of Fiorentina, one of the football clubs involved in awarding the contract.

Rai, the state broadcasting organisation, has already protested at losing the contract, and yesterday journalists and other employees at Rai went on strike over it. Mr Cecchi Gori is willing to discuss selling off some of his rights, but Rai has said it will not negotiate.

Robert Graham, Rome

## Hopes for Swedish rate cut

An optimistic prognosis for Swedish inflation issued yesterday by the central bank prompted widespread expectations that the Riksbank would soon cut interest rates for the fifth time this year. The key repurchase rate has already been lowered from 8.51 per cent in early January to 8.05 per cent and some market analysts believe it could eventually fall to 6.50 per cent in light of the latest inflation expectations. The Riksbank, in its most upbeat inflation forecast for many months, said annual price increases could be in line with its target of 2 per cent "in the coming years". It also said that the Swedish krona remained undervalued despite a marked strengthening in the last six months. However, the less upbeat side to the outlook was continuing weak economic growth, which has contributed to the fall in inflation and increased calls for lower interest rates.

Hugh Carnegie, Stockholm

## EU citizens ageing rapidly

The average age of the European Union's population will increase sharply over the next 30 years, with a rise of nearly 50 per cent in the number of people over 60, the European Commission predicted yesterday. In a report on demographic trends in the 15 EU member nations, the Commission said the number of citizens under 20 was likely to shrink 11 per cent over the same period. The report predicted the over-60 population would increase from 76.5m in 1995 to 113.5m in 2025, while the total EU population will hold steady at about 375m. It also found that by 2025, the number of adults between 20 and 59 would fall by 6.4 per cent, the number of citizens over 85 would double, and the median age - the point at which half the population is older and half younger - would climb to 45 from 35.

AP, Brussels

Albania plans stock market

Albania plans to set up a stock market within the month, trading government securities and privatisation vouchers, according to the new chief executive of the Tirana Stock Exchange, Mr Albina Karamitro. The market will be organised within the Central Bank of Albania and regulated by a securities commission appointed by President Sali Berisha. The mass privatisation plan, combined with the country's relative macro-economic stability, and stable inflation and currency have created the right conditions for opening the market, Mr Karamitro said. Some 70 state enterprises have already been sold to voucher holders, and 30 more are being prepared for sale. Privatisation vouchers are being traded on the street. "We need to be better organised now. We still don't have an amount large enough to have a sophisticated market, but this is just the beginning," Mr Karamitro said. Plans for the market include currency trading.

Marianna Sullivan, Tirana

## New Hungarian party planned

Mr Ivan Szabo, the former Hungarian finance minister, said yesterday he was leaving the Hungarian Democratic Forum (MDF), the conservative centre-right party which governed the country between 1990 and 1994, to set up a rival party. Mr Szabo, a moderate who may be joined at the new Hungarian Democratic People's party by a number of MDF MPs, made his announcement a day after losing the MDF leadership contest to Mr Sándor Lászlak, a nationalist. The MDF won the country's first post-communist elections in 1990 but was reduced to just 36 MPs after a humiliating defeat by the Socialists, the former communists, in the 1994 elections.

Virginia Marsh, Budapest

## EU to extend curbs on diesel emissions

By Caroline Southey in Brussels

European Union environment ministers yesterday backed plans for EU-wide curbs on exhaust emissions from bulldozers, harvesters and dumper trucks.

The proposals target larger diesel-powered "non-road mobile machinery" which contribute to high levels of air pollution through emissions such as nitrogen oxide, one of the main contributors to acid rain, and diesel particles, many of which are carcinogenic. The aim would be to substantially reduce emissions of four main motor exhaust pollutants by the year 2003.

The curbs would bring the EU broadly into line with US rules published last year, although a proposed second phase of cuts would introduce stricter standards than envisaged by the US. The EU's programme would reduce nitrogen oxide emissions by 45 per cent, hydrocarbon by 25 per cent and diesel particles by 67 per cent by 2003.

The European Commission has calculated that machinery covered by the proposal accounts for nearly 30 per cent of total nitrogen oxide emissions from diesel vehicles.

Moves to extend emission curbs to the sector have been backed by EU industry and member states such as Germany and the UK, fearful that EU industry could suffer because of a lack of harmonised standards within the EU and between the Union and its main trading partners.

EU sales in the sector exceeded 600,000 (55,500) last year. European manufacturers exported more than 50 per cent of their products, mainly to South Korea, Taiwan, China, Australia, New Zealand and the US.

A UK official said Britain supported the proposal for "environmental and trade reasons" and that it was "particularly keen that common standards should be agreed with the US". Euromot, an industry association representing EU manufacturers, said the proposals were "in the interests of the industry".

"It is a worldwide industry and we want to achieve worldwide standards so that we can export without complications," said Mr Harout Mayer, general secretary of Euromot. He said the proposals would drive up manufacturing costs slightly, notably for small engines "but given the time-frame for introducing the curbs we can live with it".

Dutch estimates put the rise in sales prices at 1.3 per cent after the first phase and 3.8 per cent after the second. Agricultural tractors as well as military vehicles are excluded. The Commission is expected to table proposals for tractors by the end of the year and is considering curbs on petrol-powered machines.

EU ministers also offered broad support for Commission proposals to reduce CO<sub>2</sub> emissions and improve fuel efficiency in cars. They backed plans to improve fuel efficiency in new cars to five litres per 100km for petrol engines by the year 2005, or the alternative target of achieving an average CO<sub>2</sub> emission of 190g per kilometre.

Although the ministers backed Commission proposals to achieve these goals through voluntary agreements with car manufacturers and a labelling system for cars to indicate their relative fuel efficiency, they remained divided on the issue of fiscal measures, such as a possible CO<sub>2</sub> tax.

## Belgium sends distress signals

The prospect of economic downturn in Germany or France has sent uncomfortable shivers down the spines of Europe's leading politicians, eager for a smooth transition to a single currency in 1999.

But little attention has been paid to the plight of Belgium, the small, strongly pro-European country that last year slid quietly into recession.

According to the National Bank of Belgium, the economy "has not grown at all" since the spring of last year. And news yesterday that unemployment fell in February is unlikely to lift spirits.

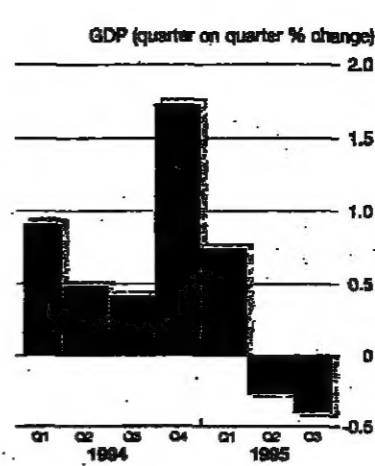
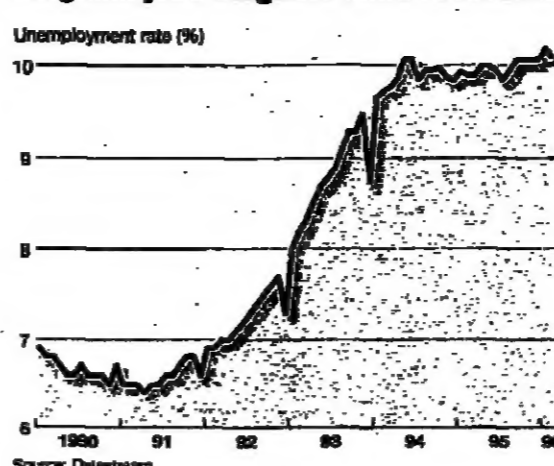
The Ministry of Employment reported that the number of people without a job dropped to below half a million last month. However, this still leaves the rate of unemployment - calculated according to Belgium's own measures which are different from international measures - at roughly 14.5 per cent.

The shockingly high figure reflects last year's dismal economic performance. According to estimates from the central bank, the economy shrank for two consecutive quarters, creating, by the usual economic definitions, a recession. In the second quarter, and on an annualised basis, growth fell by 1.1 per cent compared with the first. In the third quarter, the drop was 1.6 per cent.

Economists at Générale de Banque have estimated that in the fourth quarter the drop continued with a 0.4 per cent quarter on quarter fall, but that since then the economy had shown signs of stabilising.

For such a European nation - multilingual, geographically central and home to the EU's institutions - the figures highlight a sad irony: namely that the country's integrationist

## Belgium: jobs stagnate amid recession



ambitions are taking a heavy toll on the economy.

Mr Jean-Luc Dehaene, the Christian Democrat prime minister who leads the country's centre-left coalition, has vowed that Belgium will be among the first countries to replace its national currency with the Euro.

But in order for the dream to be fulfilled the country has had to stick to a series of tough austerity measures. For example, it has frozen wages since 1993 and cut spending on health and other social services. The result - apart from a recession - is that Belgium will almost certainly meet the deficit target of 3 per cent of GDP this year, unless there are any unexpected upheavals in growth or interest rates.

Less promising is the outlook on debt. In order to qualify for monetary union, a country's debt level has to be moving towards a target of 60 per cent of GDP. Belgium's debt is undoubtedly moving in that direction, but remains a long way off. Last year the debt to GDP ratio was 133.7 per cent compared with 136.1 per

cent in 1994. Although Belgians are showing distinct signs of unrest, outrage has not reached the levels seen in France before Christmas, partly because in Belgium the linguistic divide between French-speakers and Flemish-speakers "weakens the front", as one political observer put it.

Nonetheless, there have been sporadic strikes since the end of last year and more recently French-speaking students caused havoc in Brussels in protests over education cuts.

Boasted-up businesses are also testimony to the rise in bankruptcies, particularly in the small and medium-sized business sector, where employers are struggling to meet some of the highest employee contributions in Europe.

Explanations as to why growth has slowed so far and so fast start with a general belief that Belgium's economy simply reflects the broader slowdown in Europe - and above all in Germany.

But more specifically, the nature of the European slowdown and Belgium's economy may have exacerbated the

problem. The downturn in Europe appears to have been driven by a wave of destocking. A large proportion of Belgium's industry and exports are focused around raw materials and processed goods - elements that typically perform well in an economic cycle and fall off early in a slowdown.

Meanwhile, Belgium has also been hit hard by the strength of the Belgian franc. Exports, which represent about two-thirds of all production, are crucial for Belgium which competes directly with Italy in areas such as textiles, metalworking and furniture. Exports southwards have been hit particularly hard as a result of the lira's devaluation.

Worries about job cuts and welfare reductions also mean that Belgians have not been spending.

"Consumers are constantly afraid that the government will take new measures to get the deficit down," says Mr Jan Hermans, chief economist at the Federation for Belgian Enterprise.

According to economists there have been a few bright

spots this year, most of them anecdotal. Mr Peter Praet of Générale de Banque points to a 44 per cent year-on-year rise in car registrations last month and a sharp year-on-year increase in mortgage loans.

However, even if the economy does grow a bit this year, it still leaves Belgium facing huge problems. Perhaps the biggest is unemployment - a "major human and social problem", according to the central bank. Economists believe that the economy needs to grow by some 2.2 per cent a year to reduce the jobless count - a rate above even the government's optimistic 1996 forecasts.

The government met yesterday at its country retreat to discuss a new initiative aimed at alleviating joblessness.

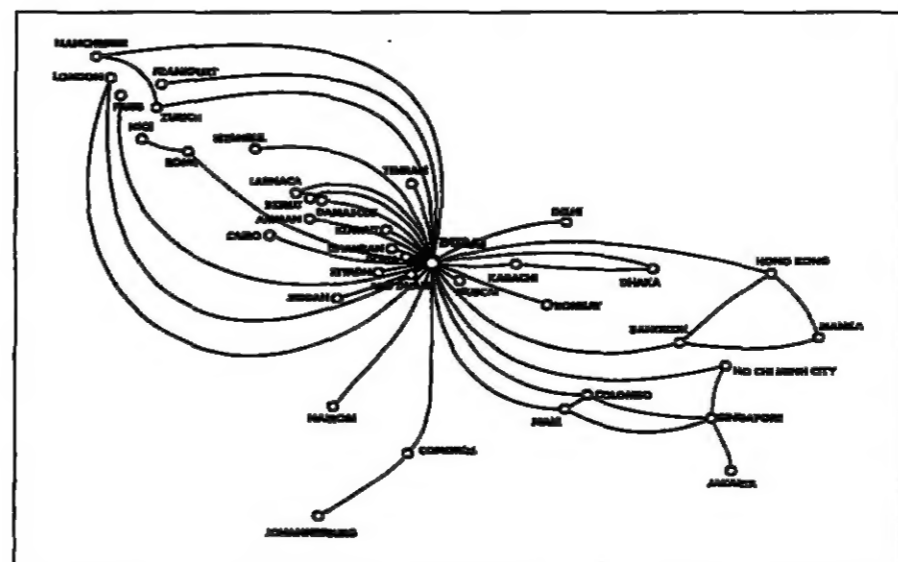
But with the government's hands tied by budget constraints, debate has shifted away from old-fashioned job creation towards a focus on incomes policies. In particular, the government wants to introduce tighter controls on wage policies, by indexing wage growth to its three neighbours - Germany, France and the Netherlands.

Belgian economists hope that this type of indexing will boost productivity. And as the Continent prepares for a single currency, they argue that this type of co-ordinated wage policy is precisely the type of initiative needed to help the convergence of Europe's economies.

But these types of measures are unlikely to provide any rapid boost to Belgium's economy - let alone convince the population of the joys of the austerity policies triggered by the preparations for Euro.

Emma Tucker, Brussels  
Gillian Tett, London

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## NEWS: EUROPE

Russia's leftwing factions unite to challenge Yeltsin and the reformers in presidential poll

## Communists boost Kremlin campaign

By John Thornhill in Moscow

Most of Russia's fractious leftwing parties closed ranks yesterday to support the presidential candidacy of Mr Gennady Zyuganov, boosting the Communist party leader's chances of winning the election in June.

Communist party tacticians feared a host of rival leftwing presidential candidates would split their vote, allowing President Boris Yeltsin to be returned to office.

But endorsements for Mr Zyuganov as the left's single candidate came from several powerful party leaders, including Mr Mikhail Lapshin of the Agrarian party, and Mr Nikolai Ryzhkov, the former Soviet prime minister who heads the Power to the People movement.

As many as 150 leftwing parties and associations are expected to join a coalition of "popular-patriotic forces" to support Mr Zyuganov on a platform of

"spirituality, statehood and ideals of kindness and justice".

However, Mr Victor Anpilov, the firebrand communist leader of the Working Russia movement, voiced dissension, saying he would withhold his previously stated support for Mr Zyuganov until he made more explicit promises to recreate the Soviet Union. Mr Anpilov's movement did surprisingly well in December's parliamentary elections, winning 4 per cent of the votes.

Although the leftwing parties support for Mr Zyuganov is hardly unexpected, it does confirm the impression that his well-organised campaign is gathering momentum. The Central Electoral Commission yesterday registered Mr Zyuganov as the first candidate to have collected more than 100,000 signatures.

The relative cohesion of the left contrasts with the disunity that still dogs the centre. Russia's free-market liberals have abandoned Mr Yeltsin but have

failed to coalesce around a plausible alternative candidate.

Mr Grigory Yavlinsky, leader of the liberal Yabloko grouping and presidential hopeful, has not won many endorsements from other politicians in the reformist camp and appears to be faltering in the polls.

But the breadth of political views Mr Zyuganov now represents makes it hard to fathom what policies he would implement if elected. Mr Valentin Kuptsov, deputy chairman of the Communist party, presented the party's moderate face on a recent visit to Belgrade suggesting only corrupt businessmen need fear a Communist victory.

In the past Mr Zyuganov has employed extreme nationalist language, rejecting western interference in Russia's economy. He has also compared the International Monetary Fund with the Nazi *Gauleiters* who administered occupied areas of the Soviet Union in the second world war.



Communist leader Gennady Zyuganov discussing the leftwing pact in Moscow yesterday

## Germany takes action on its energy cartels

By Judy Dempsey in Berlin

Germany's cartel office yesterday ruled against a contract giving RWE, the country's largest electricity company, exclusive rights to supply energy to a town, a decision that threatens to unravel the system of local energy monopolies existing since the end of the second world war.

The cartel office's direct challenge is seen as a test case for foreign and local companies which are anxious to break into the lucrative German energy sector but which are restricted by decades-long contracts between the utility companies and towns. Many of the contracts have expired or are due to soon, German cities earn an estimated DM6bn (£2.8bn) annually from the contracts.

The utility companies,

backed by the towns and cities, remain staunchly opposed to deregulation of the energy sector - despite calls by the UK and other European Union countries. The companies and municipalities fear deregulation would dent the monopolies and privileges they enjoy in the distribution of energy.

The case of Nordhorn, a town in Lower Saxony on the Dutch border, and RWE encapsulates the cartel office's grievances over Germany's highly regulated energy sector.

In 1985, Nordhorn and RWE signed a new 20-year "concessions contract" giving RWE the exclusive right to supply energy to the town of 50,000 inhabitants. In return, RWE paid Nordhorn a fee. "This is one of the reasons why towns are reluctant to upset that relationship. They get handsome fees. They don't care about choice or competition or if the

consumer has to pay one of the highest energy prices in Europe," said a cartel office spokesman.

The new contract was challenged by the state cartel authorities because it blocked competition. The state body later referred the case to the federal cartel office. At the same time, however, the federal cartel office started proceedings against Ruhrgas and Thyssengas, the gas companies which carved out among themselves a "demarcation" contract giving them the exclusive right to supply energy in a region around Nordhorn.

RWE and Nordhorn may appeal against the ruling, which may end up being referred to the European Commission.

"It is a monopoly within a monopoly," said Mr Kurt Markert, head of the federal cartel office's energy department.

## Uefa abolishes fees for cross-border transfers

By Simon Kuper in London and Neil Buckley in Brussels

Uefa, the European football association, yesterday agreed to abolish fees on cross-border transfers of out-of-contract players between European Union states or Norway, Iceland and Liechtenstein. It also scrapped the limit on the number of EU players in teams in its competitions.

The move represents an end to Uefa's attempts to lobby governments and the European Commission to retain the international transfer system, worth hundreds of millions of pounds. The system was ruled illegal by a European Court of Justice judgment in December on Jean-Marc Bosman, a Belgian midfielder player.

But Uefa has set up a working group comprising several national associations, leagues and players' representatives to

examine alternatives to the former transfer system. Uefa said: "The actual transfer system is illegal. But that does not mean that no transfer system can exist."

Also, Uefa's statement left intact the far larger market in transfers between clubs within the same country. Each national football association must decide whether to abolish fees on its domestic transfers, Uefa said yesterday.

Mr Stefan Szymanski, lecturer at the Imperial College London management school, said that transfer fees for players moving between European states amounted to about £200m last year. Domestic transfers were worth far more, with transfers between English clubs alone totalling more than £100m. Several national associations have asked to meet Mr Karel Van Miert, competition commis-

sioner, to discuss options for future domestic transfer systems. The English Football Association said yesterday: "We want to maintain the status quo." Other associations are still debating their plans. Mr Nicholas Stewart QC, a British barrister, said the domestic transfer system would probably crumble under a court challenge from a player or a club. "A transfer system does exercise some restraint of trade," he said. Mr Szymanski said: "If the law applies between states, it must apply within states."

Some football agents believe players can already move without a fee in the same country, by using a foreign club as a go-between. A player wanting to move from one English club to another could be "parked" in France and then return to England without a fee being paid.

## Timing of French reductions in armed forces irritates Bonn Franco-German defence strains

By Peter Norman in Bonn

Sand is getting into the works of the Franco-German relationship, which both countries see as the "motor of European integration".

This conclusion can be drawn from Germany's cool reaction to France's recent steps to restructure its armed forces and the slow process of working out joint positions for the forthcoming intergovernmental conference on reforming the European Union that begins in Turin this month.

While the two countries' foreign ministers were singing the praises of the relationship in the southern German town of Freiburg last week, their joint guidelines on European foreign and security policy bore the hallmarks of a difficult compromise. They also admitted that their views differed on a European approach to internal security issues.

Since then, Mr Volker Rühe, the German defence minister, has disclosed his irritation at the lack of consultation from the French side over armed forces reforms which have far reaching implications for Germany's system of conscription and development programmes. Over the weekend, Mr Rühe gave cautious vent to his feelings in an interview with the Frankfurt Allgemeine Zeitung newspaper. Because of the overriding importance attached to the Franco-German relationship by Chancellor Helmut Kohl, German cabinet ministers generally hold back from public criticism of France. Mr Rühe's remarks were far from strident, but they gave the clear impression that relations between Bonn and Paris are far less smooth with President Jacques Chirac in the Elysée place than when Chancellor Kohl's great friend François Mitterrand was French president.

Mr Rühe made clear that he was not informed about the details of President Chirac's military plans before they were announced and was still

unclear about their consequences for Franco-German military co-operation, particularly as regards the Franco-German Eurocorps.

Germany fears that the French shift to a smaller professional army raises questions about whether France would have sufficient resources to keep its conventional equipment up to strength and whether it would have the same interest in joint programmes for the "tiger" attack helicopter and the "NH90" light transport helicopter in its reaction to the French

Rühe's remarks gave the clear impression that relations are less smooth with President Chirac in the Elysée

moves, Chancellor Kohl indicated that he had been kept abreast of French thinking ahead of President Chirac's announcements on television. The reaction of Germany's defence minister suggests, however, that at a departmental level liaison between the two countries is far less close.

The view in Bonn is that the problem lies in Paris because the French cabinet has less insight into the thinking of the Elysée than was the case during the Mitterrand presidency.

The differences over defence, like the surprise caused last year by France's decision to resume nuclear testing, are a sign that Paris has become less calculable for Germany's bureaucrats. Although Germany's political leaders still swear by Franco-German friendship, some officials at least are beginning to wonder whether Germany should look again at its ties with the US, or even Britain, as an insurance policy against surprises in the future.

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BA

# Far East shipping routes planned

By Charles Batchelor,  
Transport Correspondent

The four container shipping lines grouped in a worldwide consortium known as the Grand Alliance yesterday unveiled their plans for a Europe-Far East service involving 34 ships with a capacity of more than 860,000 containers a year.

The alliance of P&O Containers of the UK, Hapag-Lloyd of Germany, NYK of Japan and the Singaporean Neptune Orient Line, plans to start its complete range of sailings in June.

The Grand Alliance is the largest of the three consortia set up by container

shipping lines during the past 18 months as part of a regrouping of the worldwide container sector.

As conferences - price-fixing arrangements - have come under pressure from regulatory authorities, the shipping lines have switched to looser alliances or consortium agreements.

The Grand Alliance partners have an arrangement for the fair sharing of costs but are free to set their own prices and do not share profits. They negotiate jointly to buy road and rail freight capacity at either end of the voyage and to gain access to container terminals.

The alliance will offer four "loops" between Europe and the Far East, two

serving Japanese ports such as Nagoya and Shimizu and two serving south China, South Korea and Hong Kong. A final decision has yet to be taken on the south China port but Shekou, Chiwan and Yantian have been shortlisted.

The service will be one of the few to provide direct links between Jeddah in Saudi Arabia and the Far East. European ports served will include Hamburg, Rotterdam, Le Havre and Southampton. Feeder services, using smaller vessels serving less busy destinations, will link Mediterranean ports to the Far East sailings.

Mr Peder Braendeholm, general manager of P&O's Far East services, said

the service had been designed to provide rapid journey times but not so tight a timetable that reliability would suffer.

P&O and NYK will each provide nine ships while Hapag-Lloyd and Neptune will supply eight each. P&O will remove six ships with an annual capacity of 100,000 containers, which it currently operates independently on these routes, to the Pacific arm of the Grand Alliance.

A characteristic of the new alliances is that they provide global east-west links, including trans-Pacific as well as Europe-Far East services. See Lex, Back Page

## Chinese face ITC fines over magnets

By Nancy Durne  
in Washington

Crucible Materials Corporation of Syracuse, New York, yesterday asked the US International Trade Commission to impose fines against three Chinese companies for violating an agreement over Crucible's patent of sophisticated rare earth permanent magnets.

Patent violations and the failure of Chinese companies to honour copyrights, trademarks and intellectual property has twice brought the US and China to the brink of trade war. The US trade representative is considering a response to China's failure to honour last year's intellectual property rights agreement.

Rare earth magnets are used extensively in electronics. Small magnets are used in motors, relays, switches and valves. They are also used to focus electron beams in radars and guidance systems. The Central Intelligence Agency believes China has sold rare earth magnets to Pakistan.

Crucible last year took its complaint to the ITC, arguing that copies of its neodymium-iron-boron (NdFeB) magnets were being sold in the US market. The company's sales from its earth magnet plant in Kentucky, which employs 500 workers, have fallen from \$25m in 1988 to \$12m last year. The company says it is being undermined by pirated versions of its product.

Before a final ITC ruling was issued, three of the seven companies targeted in the complaint last October signed an agreement in a federal consent order that the Crucible patent is valid and they would not violate it.

The four other companies named in the complaint did not sign the consent order. A ruling on their case is expected later this month. The Commission can issue a permanent exclusion order for all products found to infringe US company patents.

ITC patent infringement cases against Chinese companies are rare.

### WORLD TRADE NEWS DIGEST

## EU warns of fur trap ban

EU environment ministers yesterday warned leading fur exporters that the EU would press ahead with a ban on fur imports at the end of the year unless talks aimed at finding an alternative to leg-hold traps produce satisfactory results. The ministers urged the US, Canada and Russia to find alternatives to leg-hold traps or to use internationally humane trapping standards by the end of the year to "avoid implementation of an import ban that would otherwise be inevitable".

Last year the EU delayed a ban, due to come into effect on January 1 this year, on the import of fur from animals which had been caught in leg-hold traps. An EU ban would provoke a trade dispute with the US, Canada and Russia which has threatened to refer any ban to the World Trade Organisation on the grounds that it would constitute an unfair trade practice. Caroline Southey, Brussels

## Nokia wins big US contract

Nokia, the Finnish mobile telephones group, has won its biggest contract to date to build a Personal Communications Service network in the US. The \$200m deal with American Portable Telecom, the fifth largest PSC operator, is for the initial construction of base stations and switching equipment to cover nine cities in Ohio, Texas, Kansas, Minnesota, Pennsylvania and Florida. Nokia said the contract was an important step in its efforts to build up sales for mobile infrastructure in the US where its main strength has been in the sales of mobile handsets. Previously Nokia had won two PCS contracts for base stations. Hugh Carnegie, Stockholm

## Airport passengers rise 4.7%

The world's airports handled 2.2bn passengers last year, an increase of 4.7 per cent over 1994, according to Airport Council International. The biggest increase was at Pacific airports, where passenger numbers rose 7.6 per cent to 358.5m. The second biggest increase was in Europe, where numbers rose 6.8 per cent to 843.9m. North American airports handled just over 1bn passengers, a rise of 2.9 per cent.

Chicago's O'Hare remained the world's busiest airport, with passengers up 1.2 per cent to 87.5m. Atlanta was in second place with 57.7m passengers, followed by London Heathrow (54.5m). Michael Skapinker, Aerospace Correspondent

Philips, the Dutch consumer electronics group, will increase its stake in the Chinese television tube producer Hua Fei Color Display Systems from 30 to 55 per cent. Partners in the Chinese joint venture will invest about F1 600m (\$363.6m) to expand production of picture tubes. Hua Fei's current production capacity of 1.7m colour television tubes will be increased to 4.2m tubes per year. Hua Fei will also build a new factory for the production of colour monitor tubes with a capacity of 1.4m tubes. AP, Amsterdam

ABB Asa Brown Boveri, the Zurich-based electrical engineering group, has formed a joint venture in China to manufacture pre-insulated district heating pipe systems for the Chinese market. Frances Williams, Geneva

## Correction

Yesterday's table on world drugs sales misstated two figures. Sales of anti-infectives and respiratory drugs in France should have been \$2.02bn and \$1.31bn respectively, making the total for France \$15.1bn.

## Bulk carrier losses fall to 6-year low

By Charles Batchelor

Casualties among bulk carriers, which move heavy cargoes of ore, iron and grain, fell to their lowest level in six years in 1995 although six vessels were still lost at a cost of \$4.5m, said the International Association of Dry Cargo Ship-owners (InterCargo).

Escalating losses of bulk carriers during the 1980s prompted considerable concern in the shipping community and led to a tightening of inspection standards.

The losses in 1995 represented a sharp decline from the previous year, when 15 vessels were written off, but brought to 118 the total number lost since 1990. Thirty four incidents involved loss of life and a total of 587 crew members were lost over the six year period. Tighter international safety regulations and more thorough

monitoring of the condition of vessels by classification societies, port authorities and management led to a reduction between 1990 and 1995 in the number of vessels lost for reasons relating to poor maintenance. InterCargo said.

But there was a corresponding increase in the percentage lost due to strandings and collisions, usually the result of human error.

In 1990, 46 per cent of losses were due to "leaks" and disappearances - ships lost for no explicable reason - but by 1995 they represented only 17 per cent of the total. In contrast strandings and collisions accounted for only 21 per cent of losses in 1990 but for 83 per cent of the smaller number of losses in 1995.

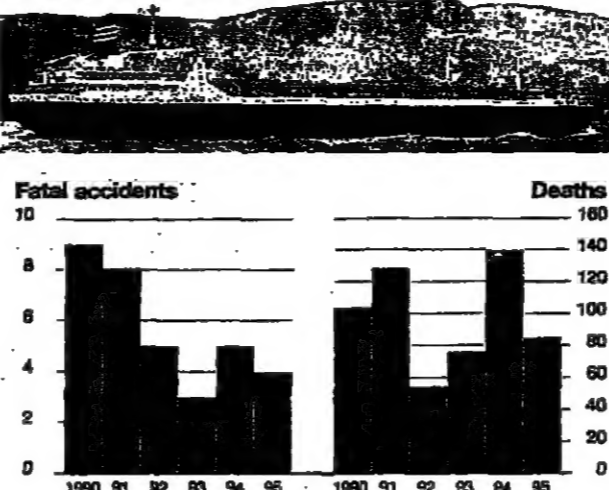
Four of the ships lost in 1995 involved strandings, one was involved in a collision while the sixth took in water.

Ships carrying iron ore cargoes represented the largest category of losses over the six year period. The most dangerous area for vessels was the Indian Ocean with a loss rate for iron ore cargoes almost double that of the South Atlantic or the western Pacific.

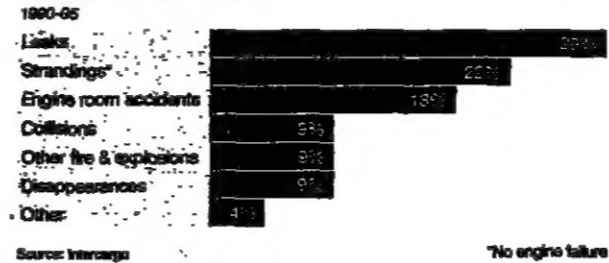
More than 5,000 dry bulk carriers are in use worldwide. Concern has arisen over their design - whether the much larger vessels now in use were capable of handling heavy cargoes - and about the rough treatment they receive in port.

The British government recently ordered a renewed investigation of one of the most notorious incidents involving the loss of a bulk carrier, the disappearance of the 90,000 tonne Derbyshire in a typhoon off Japan in 1980. The four year old ship sank so fast the crew were unable to send a "mayday" message.

Bulk carrier safety: the record improves



Causes of total losses



## Fast ferry set to cut Adriatic crossing time

By Karin Hope in Athens

Minoan Lines, Greece's largest passenger shipping operator, has placed a Dr250m (\$102m) order for a new fast ferry with Fosen MEK Verkstaer, the Norwegian shipbuilders.

Minoan, based on Crete, is upgrading its fleet to meet intensifying competition on

the Adriatic crossing, mainly from Attica Enterprises, another Greek company which operates two fast ferries on the Patras-Ancona route.

Minoan's new 31,000-ton luxury ferry will have a top speed of 27 knots, enabling it to make the Patras-Ancona crossing in 19 hours against the 20

hour crossings for the Attica ferries. It is due to be delivered in spring 1998.

The new vessel, the second fast ferry in Minoan's fleet, will be able to carry 1,500 passengers and 800 cars or 150 trucks.

Attica claimed to have captured a 45 per cent share of

the Patras-Ancona market, the most popular Adriatic route with both tourists and truck drivers, last year, its first operating season.

As well as operating a daily service in each direction, Attica launched Greece's first on-line booking system for ferries.

Minoan's joint venture with

Sirintzis Lines, another Greek ferry operator, secured an overall market share of around 50 per cent for all routes between Greece and Italy but lost ground on the Patras-Ancona run, according to analysts.

More than 1m tourists and 100,000 trucks use the Adriatic crossing every year.

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## Defence spending cuts to continue

By Patti Waldmeir

The Clinton administration yesterday unveiled a 1997 military budget of \$242.6bn, 3.6 per cent smaller than the current year's budget, continuing a long-term trend of declining defence spending.

Procurement of new weapons would take the biggest cut out of the Pentagon budget. Last year, the Pentagon had said such spending would increase this year, but those increases have been delayed by a year, because of pressure to reduce the federal deficit.

The Pentagon said yesterday its spending as a share of gross domestic product would drop to 3.2 per cent in this budget, the lowest since 1938. As recently as the mid-1980s, this figure was 6 per cent.

Although procurement spending would fall in 1997 to \$38.9bn from this year's \$42.3bn, the decline would be only temporary. By 2001 - the year before the President and Congress have agreed to balance the federal budget - it would have jumped 40 per cent from current levels, to \$60bn.

Senior military officials say such spending is essential to keep US forces up to date. Yesterday's defence budget provided some of the first details of proposed government spending for fiscal 1997.

Last month, President Bill Clinton submitted a barebones outline of his spending and revenue plans for 1997 to Congress, as he was required to do by law.

But detail in the document was minimal: with agreement still proving elusive on the current year budget, details of a 1997 budget plan had to be deferred. The document outlined a total government budget of \$1,639bn for 1997, with a deficit of \$161bn. Both figures are about 4 per cent higher than budgeted figures for the current year.

The proposal for 1997 spending includes funds for "contingency operations", such as the Bosnia peace mission, that are in addition to regular training.

## Rapid pace favours leader of pack

By Patti Waldmeir in Washington

Over the next 72 hours, a third of the delegates needed to win the Republican nomination for the US presidency will be chosen in states from Georgia to Maine.

The rapid pace of the voting, and the wide geographical spread, leaves little time either for campaigning or for heavy advertising spending - both factors which are expected to favour Mr Bob Dole, the Senate majority leader and best-known candidate. Powerful fig-

ures from the Republican establishment in each state also back Mr Dole, who leads the pack in most opinion polls.

Up to now, the pace of the primary election campaign has been leisurely, with 215 delegates chosen in three weeks. Later today, eight more states will vote at once, in what has been dubbed Junior Tuesday, to distinguish it from Super Tuesday, March 12, when a number of big states choose their delegates.

Between today and Thursday's New York primary, 330 Republican delegates will be chosen, of 996 needed to win the nomination.

Georgia will be the main battleground on Junior Tuesday. But a series of "Yankee primaries" will also be held in five New England states: Massachusetts, Connecticut, Maine, Rhode Island and Vermont.

Opinion polls show Mr Dole leading in all these states, but one Vermont poll shows him tied with Mr Pat Buchanan, the conservative commentator. Massachusetts is the biggest prize of the Yankee primaries, awarding 37 delegates. Late polls give Mr Dole a comfort-

able lead there. The Boston Globe newspaper puts Mr Dole's support at 33 per cent, ahead of Mr Steve Forbes, the millionaire publisher (15 per cent), Mr Buchanan (14 per cent) and Mr Lamar Alexander, former Tennessee governor (11 per cent).

Both Mr Forbes and Mr Buchanan have targeted independent-minded Maine for a late burst of campaigning. In 1992, a large contingent of voters there supported Mr Ross Perot, the independent candidate. The two men are also hoping to do well in Connecticut, where Mr Buchanan scored 23 per cent support in the 1992 primary, and where Mr Forbes made weekend campaign stops.

In the quirky western state of Colorado, Mr Dole is viewed as vulnerable. Mr Buchanan got 80 per cent of the vote there in the 1992 primary, and both he and Mr Forbes are vying for the support of the 23 per cent who voted for Mr Perot in the presidential poll.

Latest polls show Mr Dole with 33 per cent support, with Mr Forbes at 19 per cent and Mr Buchanan at 17 per cent.

Argentina is threatening to lodge an official complaint with London today that Argentine-registered boats are being forced to pay licence fees to fish around the UK dependency of South Georgia in the south Atlantic.

"We deplore the British attitude which is not compatible with dialogue and which threatens the continuation of talks about a fishing agreement [in Falkland waters]," an official at the Argentine foreign office said yesterday.

It was "99 per cent certain" that Buenos Aires would lodge an official complaint. Argentina claims sovereignty over South Georgia, which lies 800 miles south-east of the disputed Falkland Islands.

In 1982, commercial activities by an Argentine scrap-metal merchant in South Georgia sparked the brief but bloody Falklands war.

The Argentine protest over fishing licences follows local press reports that an Argentine-registered vessel, the Antarctic III, was last week intercepted by two British boats and "forced" to pay a £70,000 fee to catch toothfish, a south Atlantic delicacy sold in Japan and Europe.

British officials said yesterday there was no such incident and that the Argentine vessel had merely applied for and been granted a fishing licence. Such licences were introduced in 1983 and had been granted in the past to vessels registered in Chile, the US, South Korea and Russia.

Argentine vessels had never previously applied. The Argentine foreign ministry denied it had any knowledge of the licence-fee system and said Argentine vessels had fished for several years around South Georgia without hindrance.

It did not recognise Britain's right to collect licence fees in disputed waters. "Everyone knows there is a

licensing regime. It's been there since 1983," said a British Foreign Office official. The system, administered by the 21-nation Convention for the Conservation of Antarctic Marine Living Resources, was purely for conservation.

Britain feared that overfishing could wipe out toothfish stocks, much as had happened to whales in South Georgian waters.

Officials said Argentine and other ships had fished "illegally" in South Georgia in previous seasons, but that Buenos Aires had been warned waters would be more rigorously patrolled this year.

The Foreign Office issued a statement yesterday in response to suggestions that the British navy had heightened tension by sending a "gunboat", HMS Northumberland, to South Georgian waters.

"There has been no increase in naval deployments in the region. The fishery around South Georgia opened on March 1 but there is no increase in tension," the statement said. HMS Northumberland "regularly" patrolled South Atlantic waters, officials said.

Mr Guido Di Tella, Argentina's foreign minister, said at the weekend that President Carlos Menem of Argentina would not accept an official invitation to visit London until the South Georgia incident and South Atlantic fishing policy in general had been properly hammered out.

"We are in no hurry," a spokesman said yesterday. Anglo-Argentine fishing talks, which aim to set quotas in waters around the Falklands, were held in Buenos Aires last week.

According to both sides, the informal talks made little progress with a "gulf" remaining between the two sides.

Britain has been seeking a multi-year agreement to provide a fishing regime for the south Atlantic to replace the current arrangement where quotas are arranged annually.

## Dole hopes to steal march in Georgia

Senator needs a solid vote and a phone engineer, says Jurek Martin

Anybody calling Senator Bob Dole's Atlanta campaign office yesterday morning heard a cryptic automated reply: "This number is being checked for problems, please try again."

The majority leader must hope the recorded message was not prophetic before the Georgia primary and contests in seven other states across the country today.

This is the day when Mr Dole has reasonable expectations of finally breaking clear of the Republican pack of contenders for the party's presidential nomination.

His hopes have been bolstered by the comments of Georgia's most prominent politician.

Mr Newt Gingrich, the House Speaker, cast his absentee vote for Mr Dole in Georgia yesterday. He called Mr Dole "a great leader" who would beat President Bill Clinton in November.

Earlier the Speaker had urged Mr Lamar Alexander, the former governor of Tennessee, and Senator Dick Lugar of Indiana to withdraw. Both chiefly draw support away from the majority leader. He also predicted that if Mr Dole "has the kind of Tuesday he is capable of I think he will clearly be the presumptive frontrunner on a pretty big scale".

In a Sunday night TV debate notable for Mr Dole's absence.

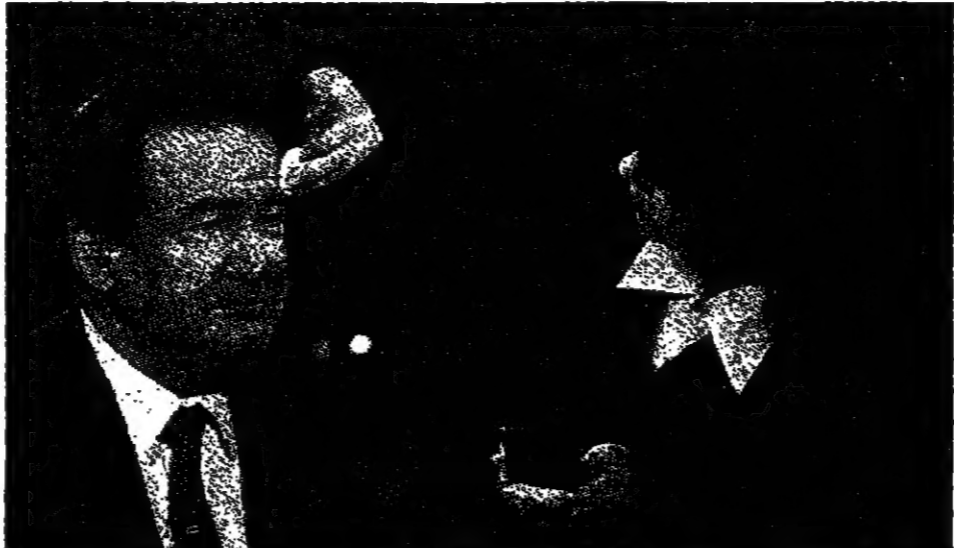
Mr Alexander said he would stay in until the Super Tuesday primaries next week. But an aide to Mr Lugar said the candidate would "re-evaluate" his position if he did not finish in the top two in Maine and Vermont today.

The debate itself, a three-way affair between Mr Alexander, Mr Pat Buchanan, the conservative commentator and Mr Steve Forbes, the millionaire publisher, was more notable for an offstage fracas. Mr Alan Keyes, a minor candidate, was arrested outside the TV studios after protesting at his exclusion from the debate.

The participants naturally criticised Mr Dole's non-appearance, with Mr Buchanan frequently trying out his new attack line that the majority leader was a "collaborator" with Mr Clinton on issues from Bosnia to NAFTA.

But the Georgia primary is not easy to call. In 1993 Mr Buchanan scored 36 per cent against President George Bush, one of his best performances, but the latest Atlanta Constitution poll gave Mr Dole 31 per cent, Mr Buchanan 23 per cent, Mr Alexander 16 per cent and Mr Forbes 10 per cent.

These are similar pre-election numbers to those in South Carolina, which on Saturday gave the majority leader a convincing victory, with Mr Alexander finishing a bad fourth behind Mr Forbes.



Pat Buchanan makes sure he looks his best for an Atlanta TV show

Notwithstanding the implicit backing of Mr Gingrich and unequivocal support from Senator Paul Coverdell, the local Republican establishment has nothing like South Carolina's unity and influence, which so profited Mr Dole.

Governor Zell Miller is a Democrat, as is Senator Sam Nunn. The Democratic party still controls both state assembly houses, although its base has been whittled down to rural areas and to blacks, who comprise 27 per cent of the population.

Mr Alexander's remaining hopes lie with moderate white Republicans, many of them recent Democratic converts, who have long been attracted to the sort of progressive "new

south" politician he considers himself to be.

That appeal started with Mr Jimmy Carter, former president and governor, and included Vice President Al Gore and Mr Clinton.

Modern Atlanta, home of this year's Olympics, Coca-Cola and CNN, and the business and financial "heart of the South", dominates the state but is not entirely typical of an economy that features more than its share of low-wage industries.

Thus Mr Buchanan, always sensitive to local symbols, took his protectionist message yesterday to LaGrange, site of a textile plant destroyed by fire some years back but rebuilt by its owner, Mr Roger Milliken. In the debate, Mr Buchanan

commended Mr Milliken, his best known financial backer, for not relocating the facility in Mexico.

Intra-state disparity matters because this is not a winner-take-all primary like New Hampshire and Arizona. The 42 convention delegates at stake are allocated in each of Georgia's 11 congressional districts, with a bonus for the statewide victor.

As Mr Tom Baxter of the Atlanta Constitution cautiously concluded his column yesterday: "The newly-minted frontrunner [Mr Dole] needs a solid consistent vote from a state that, until this past week, at least, was extremely shaky." That, and a telephone engineer.

## Budget deadlock leaves Puerto Ricans in limbo

Washington's final decision on tax credits has strong bearing on island's future, writes Canute James

The deadlocked budget battle in Washington between President Bill Clinton and Republican legislators is causing an increasingly bitter division among the people of Puerto Rico.

Buried below the more contentious arguments in the budget debate are proposals and counter proposals for changes to tax incentives for US companies investing in Puerto Rico, which have been central to the rapid industrialisation of the island.

While legislators in Washington see an end to the tax breaks, giving savings to the federal budget of about \$20bn (£12.9bn) over five years, the debate in Puerto Rico is being waged over the more emotional issue of the island's political future.

What is eventually decided by Washington about Puerto Rico's tax credits will influence the islanders' decision as to whether they remain a quasi-colonial "commonwealth", become a state of the union, or a politically independent country.

Section 936 of the federal revenue code allows income tax and wage credits to subsidise US companies operating in Puerto Rico. Interest earned on income is also tax free.

These funds of several billion dollars have underwritten the island's financial stability. The tax incentives have attracted hundreds of companies to Puerto Rico, particularly those involved in pharmaceuticals and electronics, with manufacturing accounting for about 40 per cent of the gross domestic product.

Washington's budget cutters have seized on Section 936, saying it must be phased out over 10 years. Mr Clinton, however, has proposed the end to income tax credits over seven years, but an extension of the wage credits. Companies which have invested in Puerto Rico oppose the end of Section 936. Without the incentive, they argue, the island would suffer rapid disinvestment.

"In an atmosphere of budget cuts, we can't fairly expect that Section 936 will not be touched," said Mr Marcos Rodriguez-Ema, president of the

Government Development Bank of Puerto Rico. "There was an amendment to Section 936 in 1993, but the manufacturing sector rebounded. The possibility of change always brings some exaggerated predictions. We feel confident that in five to eight years nothing will affect the manufacturing sector adversely."

"There has been no significant new production coming to Puerto Rico during this period of uncertainty"

Of the options being considered in Washington, the manufacturing sector is lining up behind the administration's proposal. "We back President Clinton's proposal but we are asking him to improve it," said Mr Hector Jimenez Juarez, vice-president of the Puerto Rico Manufacturers' Association.

"There has been no significant new production coming to Puerto Rico during this period of uncertainty, although some companies have gone ahead with earlier expansion plans. There is increasing employment in the electronics industry, but we have lost jobs in textile and apparel, while pharmaceuticals have not expanded," he said.

It is not surprising that the issue has become enmeshed in the perennial debate about Puerto Rico's political future. The island is officially described as a "free associated state" of the US. Puerto Ricans are US citizens, but cannot vote for a president.

The island's representation in Washington is limited to a commissioner who has no vote to influence legislation. In the last referendum in 1993, 48 per cent voted for the status quo, 46 per cent supported statehood, while 4 per cent wanted political independence.

The incumbent New Progressive party, which wants Puerto Rico to become a state of the union, is against the retention

## Argentina in island fishing licence protest

By David Pilling in Buenos Aires

Argentina is threatening to lodge an official complaint with London today that Argentine-registered boats are being forced to pay licence fees to fish around the UK dependency of South Georgia in the south Atlantic.

"We deplore the British attitude which is not compatible with dialogue and which threatens the continuation of talks about a fishing agreement [in Falkland waters]," an official at the Argentine foreign office said yesterday.

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It did not recognise Britain's right to collect licence fees in disputed waters. "Everyone knows there is a

## New look for \$100 bills this month

Redesigned \$100 bills aimed at foiling increasingly sophisticated counterfeiters will be shipped to banks in the US on March 25, AP reports from Washington.

The Treasury Department and Federal Reserve said yesterday the initial shipment would be \$80bn in new bills, which feature a large, off-centre portrait of Benjamin Franklin and security features such as colour-shifting ink and a watermark.

The shipment represents a third of the estimated \$240bn of \$100 notes circulating nationwide, officials said.

The new bills will gradually replace those already in circulation as banks deposit the older money with the Federal Reserve. For now, both old and new bills will circulate.

Fed Governor Susan Phillips said the government would not recall or devalue the old currency.

The \$100 bill is the first in a series of redesigned notes, with new versions of smaller denominations appearing over the next five years.

Last week, a House banking subcommittee heard that counterfeiting of US currency, particularly the \$100 bill, is on the rise overseas.

Reuter adds from Washington: US consumer spending dropped in January at the sharpest rate in nearly 94 years while incomes grew only weakly, the Commerce Department said yesterday.

Spending dropped 0.5 per cent to a seasonally adjusted annual rate of \$5,010bn in January following a 0.9 per cent December increase. Incomes edged up by just 0.1 per cent to \$6,250bn after a 0.6 per cent December gain.

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## Iraq unsettles oil markets

Turkmenistan, signed the accord on behalf of TAP Pipelines International, a consortium which includes Turkmen, Afghan and Pakistani interests. *Robert Corzine, London*

## Source: Reuters.

**Julian Ozanne**

In the emerging markets, Latin American borrowers suffered in the first quarter from the after-effects of the Mexican financial crisis. However, issuance picked up in the second quarter and totalled \$13bn in 1995, up from \$10bn in 1994. Looking ahead, "market conditions appear to be reasonably favourable for issuance", the OECD said, but "much will depend on swap opportunities".

Turkmenistan, signed the accord on behalf of TAP Pipelines International, a consortium which includes Turkmen, Afghan and Pakistani interests. *Robert Corzine, London*

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**AXA**  
INSURANCE & INVESTMENT

## NEWS: ASIA-PACIFIC

## Major warns Beijing to uphold Hong Kong agreements

By John Kampfner and John Ridding in Hong Kong

Mr John Major, the UK prime minister, yesterday announced a five-point package designed to demonstrate Britain's commitment to Hong Kong after its handover to China next year and warned Beijing to uphold agreements on the colony's future.

In an unexpectedly tough speech at the end of his visit to Hong Kong, Mr Major said Britain would "mobilise the international community and pursue every legal or other avenue available" if there were any breach of the 1984 Sino-British pact on Hong Kong. He was referring to China's threat to abolish the Legislative Council (Legco), which became fully elected last

year under reforms introduced by Governor Chris Patten, and to amend the colony's bill of rights.

Speaking at the end of what may be the last visit to Hong Kong by a British prime minister before the July 1997 handover to China, Mr Major said that curbing the Legco's term would constitute a breach of the 1984 Sino-British Joint Declaration.

The measures extend visa-free access to permanent residents in Hong Kong. New rights will be granted to the 2.4m people eligible for passports of the Special Administrative Region, as Hong Kong will be known after 1997. Mr Major also said Britain would guarantee right of abode for 7,000 members of non-Chinese minorities, mainly from India and Pakistan, if they

came under pressure to quit Hong Kong. In a move to internationalise the Hong Kong issue, likely to annoy Beijing, Mr Major said: "We do not and we will not simply lie down and accept what we are told." Officials said Britain reserved the right to ensure China's compliance with the Joint Declaration by appealing to the International Court of Justice and using the United Nations Security Council.

Directly appealing to the people, he said: "If you don't appear to care about the survival of Hong Kong's system, its rule of law, clean government and a free society, others may draw the conclusion these don't really matter."

Reaction to the speech was mixed. Mr Ian Christie, director of the Hong Kong

General Chamber of Commerce, described it as "reassuring" and said it would boost business confidence in Hong Kong. Mr Martin Lee, leader of the Democratic party, the largest group in Legco, said Mr Major had failed to specify what actions Britain would take in support of the colony's elected institutions. Mrs Emily Lau, an independent legislator, claimed the speech provided some reassurance but much more should be done, notably the granting of citizenship to Hong Kong's 3.5m British subjects.

The Indian Resources Group, representing ethnic Indians, said Mr Major's statement did not remove underlying anxieties; they would continue to press for full British citizenship.

The concession on visas was pushed through after pressure from Mr Patten, a close political friend of Mr Major, and in the face of resistance from Mr Michael Howard, UK home secretary, and other Conservative party rightwingers.

Mr Patten argued that Hong Kong citizens were extremely unlikely to contravene immigration rules, and that free travel between Hong Kong and London was essential for Britain's commercial interests.

Asked by a businessman in the audience whether he could sleep at night in the knowledge Hong Kong's 6m people were to be returned to a regime many opposed, Mr Major said: "I don't like it any more than you, but I have to obey the law."

George Parker in London adds: Some Conservative MPs claimed the visa concession could provide an easy route for Hong Kong citizens to settle in the UK. Mr Charles Wardle, a former immigration minister, claimed that anyone who said the proposal would not increase the risk of immigration abuse was "talking through his head". "Some of the people who will make their way here as visitors will stay over illegally and include people originally from South China," he said.

"When we have a £90bn (£90bn) social security budget, is that a wise move?" The rightwing Tory MP Nicholas Budge said the decision would cause "resentment" in Britain.

Editorial comment, Page 15



Bangladesh opposition leader Sheikh Hasina (right) attends prayer with thousands of other women at the Moslem Biswa Itjema rally, near Dhaka yesterday. The event drew 700,000 devotees

## Bangladeshi opposition to call strike tomorrow

By Mark Nicholson, South Asia Correspondent

Bangladeshi opposition parties said they would call a day-long strike tomorrow and an indefinite period of "non-co-operation" three days later, having rejected as a "ploy" to retain power the offer by Prime Minister Khaleda Zia to hold future elections under a neutral administration.

Sheikh Hasina, leader of the Awami League, which heads the three-party opposition movement, said she would not accept Mrs Zia's offer, made in a televised address on Sunday, since this would "legitimise" the parliament elected in boycotted polls on February 15.

The Awami League and two other main parties say the poll, which the ruling Bangladesh

Nationalist party (BNP) won essentially unopposed, was "a fraud". Sheikh Hasina demanded Mrs Zia resign, annul the earlier poll and "clearly state a specific time for holding an election under a caretaker government".

Diplomats in Dhaka said the opposition rejection of the offer and further strike calls would pitch the country into "another round of destructive deadlock", with the likelihood of increased violence and economic disruption over coming weeks.

More than 30 people have been killed and hundreds injured in clashes between strike-enforcing opposition activists and security forces over the past month. More than 400 of the country's 2,000 garment factories, which

account for 60 per cent of Bangladesh's export earnings, have closed for want of orders during the past two months of strikes and street violence, according to the Bangladesh Garment Manufacturers and Exporters Association.

Mrs Zia said she would introduce a bill in the BNP-dominated parliament to allow for a neutral, interim government to preside over fresh elections. This would then be put to a national referendum. The offer was an attempt to meet the opposition's main demand, an unresolved dispute over which has paralysed politics for more than a year.

One man was shot dead and more than 50 injured in demonstrations in Dhaka and other cities immediately following Mrs Zia's address.

## NTT spurred on by break-up threat

Michiyo Nakamoto on why the Japanese telecom giant has become unusually busy

This year, millions of Japanese telephone users can look forward to lower charges and greater choice in communications services, courtesy of NTT. The Japanese domestic telecommunications company, the world's biggest telecoms operator both by market capitalisation and revenue, has been unusually busy in the past year.

It has announced plans to help its competitors in the long-distance market reduce rates and provide varied services, and cut its own rates to "lower than the standard in the industrialised world" by the early 21st century.

For that, the Japanese public should thank not NTT, perhaps, but the Telecommunications Council, a government advisory panel which last week called for the break-up of the company into one long-distance and two regional operators by March 1998.

The threat the council would recommend a break-up has been the main trigger for NTT's new-found willingness to address criticism that its size and dominance of Japan's telecoms markets allow it to overcharge users and hamper the development of competitors by denying them fair access to its networks.

If it can stay in one piece, NTT indicates, it will become a leaner organisation, reducing rates and offering competitors fair use of its local lines at reasonable cost.

Despite NTT's efforts to avoid a break-up, the council, whose recommendation carries considerable weight with the government, delivered the ver-

dict last Thursday that a break-up of NTT was crucial in taking Japan's telecoms industry into the new age of information and communications.

The council's argument, echoing that of the Ministry of Posts and Telecommunications, is that without breaking up NTT, only limited competition can be introduced into the market through measures such as deregulation.

Despite the introduction of competition 10 years ago, NTT controls 99 per cent of the local network, which in turn makes up 80 per cent of the domestic telecoms market. This control also gives it a distinct advantage over its competitors in the long-distance market, the council argues.

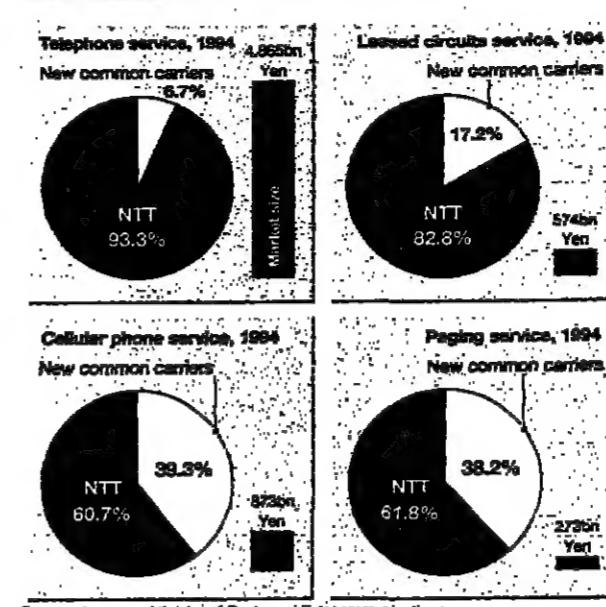
NTT has lost long-distance market share since competition was introduced, but its share of that market is still formidable, at 89 per cent. NTT's control of the local network has prevented its long-distance competitors from providing lower rates and diversified services in a timely manner, the council notes.

The long-distance operator would be completely privatised and allowed to expand into regional markets, cable TV, international markets and to provide contents. It would take over NTT's subsidiaries in data communications and personal communications.

KDD, Japan's largest international carrier, would be permitted into the domestic market.

Initially, the two regional operators would not be allowed to provide long-distance, but would be able to provide national or cable services from

## NTT share of domestic market



serving eastern and western Japan.

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Initially, the two regional operators would not be allowed to provide long-distance, but would be able to provide national or cable services from

their own business areas or to provide content services. But they would be allowed into these businesses outside their regions. As competition intensifies, this distinction would be lifted. These companies would eventually be completely privatised.

The limit on the foreign share of long-distance NTT would be relaxed from 20 per cent to one-third.

A yardstick system, whereby companies would be required to lower their rates to the level of the most efficient company, should ensure competition takes place within the regional networks, the report states.

Shareholders should benefit from enhanced efficiencies at the company after the break-up, the council forecasts.

In response, NTT warns the break-up would result in regional differences in service quality and charges, and that the regional company serving western Japan could fall into the red.

Revenues of the long-distance company would drop to less than half of either AT&T of the US or British Telecom, leading to a 100% in Japan's international competitiveness.

To make matters worse, the entire operation would cost ¥450bn (\$4.27bn), NTT claims.

As the debate over the future of NTT and the Japanese telecoms market moves from the advisory panel to the political stage, both sides are mustering their forces in a last-ditch effort to steer the outcome in their favour.

A decision should be made by the end of March. But politicians, fearful of losing support from the powerful telecoms labour union, which opposes a break-up, have wavered in the face of possible elections this year. The decision, already put off twice since NTT was privatised, could again be postponed.

Whether they are for or against a break-up, many in the industry say a postponement would be the worst outcome. Having had to operate in an environment of uncertainty when the industry is going through rapid change, further indecision can only prolong the damage.

## Howard promises updated budget data

By Nikki Tait in Sydney

As senior members of Australia's new Liberal-National coalition government met Treasury officials yesterday, Mr John Howard, prime minister-elect, said updated information on the country's

budgetary position would be released after his new administration was sworn in.

Separately, Mr Bill Kelty, secretary of the Australian Council of Trade Unions, resigned from the board of the Reserve Bank, the central monetary authority, in a move which signalled how different relations between the new government and the union movement will be from the former Labor-union nexus.

Mr Howard said that a statement on the fiscal situation would be made in a few days. "I will be getting a briefing from the Treasury later today, and the statement about that issue would be made as soon as possible, after the government has been sworn in," he added.

"We're not talking about wages, we're only talking about a few days."

Throughout the election campaign, both sides based their pledges on official forward estimates almost a year old. These had suggested the federal budget should be in surplus in 1998-97, but many

economists think the position has deteriorated sharply since then, and that the country could now be looking at a deficit of A\$3bn-A\$5bn (US\$2.28bn-US\$3.55bn).

Given that the coalition has promised new expenditure measures of A\$6.5bn (spread over three years) and has said that it will not raise taxes, its ability to move to an underlying surplus in the 1996-97 financial year could be constrained.

Mr Kelty's resignation surprised some observers with its swiftness. The union leader, a powerful figure in the labour movement, said he had discussed the situation with the Reserve Bank governor, and believed "my continued membership of the board may be inconsistent with my union responsibilities".

During the election campaign, Mr Kelty warned that if a coalition government moved to diminish workers' protection, the union movement would put up fierce resistance. In the absence of any incomes

policy arrangement, he said workers would push for bigger wage increases. The Reserve Bank, in official statements, has repeatedly warned about the need to keep a close eye on wage inflation.

In a letter to Mr Howard, Mr Kelty congratulated the new prime minister, but said his resignation hinged on the refusal of the incoming administration to enter a price and income accord.

Under the previous accord with Labor, "it was reasonable and feasible for the ACTU to support the Reserve Bank's 2.5 per cent inflation target". But "with abolition of the accord processes and a renewed emphasis on market forces in wage matters, I do not see how I could satisfactorily reconcile my union and board responsibilities".

On the financial markets, the coalition's huge weekend win, which brought to an end 13 years of Labor rule, received a mixed response. The Australian dollar rallied initially, but eventually closed

lower, with some analysts talking of caution until the fiscal situation is clarified. Bond yields fell, with the benchmark 10-year bond moving over 20 basis points lower to 8.34 per cent.

The stock market opened 174, due to technical problems, but most leading share prices rose. Gains in the banking, mining and media sectors were particularly strong; these stand to benefit from coalition policies.

Mr Howard said the coalition would pursue the sale of the government's remaining 50.4 per cent stake in Commonwealth Bank "as soon as market circumstances permit".

Asked whether an increased vote for the minor parties which control the balance of power in the Senate, parliament's upper house, gave them a mandate to block the partial privatisation of Telstra, the large telecoms group, Mr Howard said he believed "mandates are only conferred on governments, because only they can initiate legislation".

## INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (ECU). The ECU exchange rate shows the number of national currency units per ECU. The nominal effective exchange rate is an index, with 1985=100.

UNITED STATES					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	279.8	-174.2	-103.0	100.0	100.0
1986	231.0	-140.6	-90.4	83.6	81.4
1987	220.2	-131.8	-88.4	81.1	79.8
1988	272.5	-100.2	-172.3	87.0	87.0
1989	330.2	-99.3	-230.9	101.7	100.0
1990	309.0	-79.3	-229.7	127.45	66.7
1991	340.5	-55.5	-396.0	127.45	66.7
1992	345.9	-65.2	-411.1	127.45	64.1
1993	397.3	-96.7	-494.0	127.45	65.1
1994	432.3	-127.0	-559.3	127.45	65.1
1995	452.2	-123.9	-576.1	127.45	62.2
1st qtr.1995	111.4	-32.6	-78.8	127.45	62.7
2nd qtr.1995	110.1	-33.1	-77.0	127.45	62.7
3rd qtr.1995	113.2	-31.2	-82.0	127.45	62.7
4th qtr.1995	117.4	-27.0	-90.4	127.45	62.3
January 1995	36.8	-12.0	-24.8	127.45	64.0
February	37.2	-10.7	-26.5	127.45	63.3
March	37.4	-9.9	-27.5	127.45	62.6
April	36.0	-11.1	-24.9	127.45	62.7
May	37.6	-10.8	-26.8	127.45	62.1
June	36.6	-11.2	-25.4	127.45	62.0
July	35.3	-11.5	-23.8	127.45	62.0
August	38.5	-9.7	-28.8	127.45	62.5
September	39.5	-10.0	-29.5	127.45	62.5
October	38.4	-9.5	-28.9	127.45	61.9
November	38.5	-9.5	-29.0	127.45	62.2
December 1995	40.2	-8.8	-29.4	127.45	62.7

JAPAN					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	228.2	73.5	154.7	100.0	100.0
1986	208.9	94.2	114.7	100.0	100.0
1987	194.7	83.7	111.0	100.0	100.0
1988	218.7	73.8	144.9	100.0	100.0
1989	245.5	70.6	174.9	100.0	100.0
1990	220.0	50.0	170.0	100.0	100.0
1991	217.6	52.4	165.2	100.0	100.0
1992	214.8	52.4	162.4	100.0	100.0
1993	204.8	52.4	152.4	100.0	100.0
1994	300.0	120.8	179.2	100.0	100.0
1995	323.5	122.5	201.0	100.0	100.0
1996	331.1	104.2	226.9	100.0	100.0
1st qtr.1995	82.0	27.7	54.3	100.0	100.0
2nd qtr.1995	87.6	29.1	58.5	100.0	100.0
3rd qtr.1995	81.2	25.3	55.9	100.0	100.0
4th qtr.1995	80.3	22.1	58.2	100.0	100.0
January 1995	25.8	8.4	17.4	100.0	100.0
February	28.7	9.6	19.1	100.0	100.0
March	27.5	9.6	17.9	100.0	100.0
April	29.1	8.8	20.3	100.0	100.0
May	29.0	9.9	19.1	100.0	100.0
June	29.4	10.4	19.0	100.0	100.0
July	26.7	7.8	18.9	100.0	100.0
August	28.1	9.5	18.6	100.0	100.0
September	25.5	8.1	17.4	100.0	100.0
October	25.5	8.0	17.5	100.0	100.0
November	25.9	8.0	17.9	100.0	100.0
December 1995	28.0	8.1	19.9	100.0	100.0

GERMANY					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	242.7	33.3	209.4	100.0	100.0
1986	248.5	53.4	195.1	100.0	100.0
1987	254.4	58.7	195.7	100.0	100.0
1988	325.6	81.5	244.1	100.0	100.0
1989	310.7	63.3	247.4	100.0	100.0
1990	324.3	51.8	272.5	100.0	100.0
1991	323.3	41.2	282.1	100.0	100.0
1992	330.5	18.6	311.9	100.0	100.0
1993	323.0	31.4	291.6	100.0	100.0
1994	358.8	37.9	320.9	100.0	100.0
1995	364.1	37.9	326.2	100.0	100.0
1st qtr.1995	94.4	12.0	82.4	100.0	100.0
2nd qtr.1995	99.3	12.5	86.8	100.0	100.0
3rd qtr.1995	98.0	12.7	85.3	100.0	100.0
4th qtr.1995	98.0	12.7	85.3	100.0	100.0
January 1995	30.8	5.2	25.6	100.0	100.0
February	32.0	3.9	28.1	100.0	100.0
March	31.6	2.9	28.7	100.0	100.0
April	32.9	4.7	28.2	100.0	100.0
May	32.1	3.8	28.3	100.0	100.0
June	34.2	4.0	30.2	100.0	100.0
July	32.5	3.9	28.6	100.0	100.0
August	32.0	4.2	27.8	100.0	100.0
September	34.8	4.7	30.1	100.0	100.0
October	33.3	4.2	29.1	100.0	100.0
November	33.5	5.3	28.2	100.0	100.0
December 1995	33.5	5.3	28.2	100.0	100.0

FRANCE					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	133.4	-3.7	-0.3	6.7342	100.0
1986	127.1	0.0	0.3	6.7346	102.7
1987	128.3	-4.6	-3.7	6.8226	102.6
1988	141.9	-4.7	-3.4	7.0354	100.7
1989	159.9	-6.3	-5.7	7.1912	100.0
1990	170.1	-7.2	-6.2	7.8202	103.8
1991	175.4	-4.2	-4.9	8.8643	102.1
1992	182.5	6.5	2.9	9.5911	105.0
1993	179.6	13.3	8.0	6.5281	108.1
1994	198.8	12.9	8.6	6.5659	110.1
1995	220.8	16.7	6.5	6.4480	113.4
1st qtr.1995	55.0	4.7	7.0	6.5155	112.2
2nd qtr.1995	54.3	4.6	3.9	6.4909	112.2
3rd qtr.1995	54.7	3.2	0.8	6.4383	114.3
4th qtr.1995	55.3	4.2	0.8	6.3560	114.3
January 1995	17.8	1.3	5.0	6.5484	111.4
February	18.6	1.6	5.0	6.4816	111.7
March	18.5	1.7	0.8	6.4941	111.4
April	18.5	1.8	1.2	6.4371	114.6
May	18.6	1.3	0.6	6.5213	112.2
June	18.7	1.5	1.5	6.4817	113.1
July	17.8	0.7	0.2	6.4224	114.3
August	18.6	1.3	0.8	6.4222	114.1
September	18.6	1.2	0.3	6.4344	113.7
October	18.2	0.9	0.4	6.4104	113.6
November	18.9	2.1	1.8	6.3303	114.8
December 1995	18.3	0.9	1.6	6.3209	114.4

ITALY					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	103.7	-16.0	-8.4	144.03	100.0
1986	103.6	-18.2	-8.4	146.11	100.0
1987	103.7	-2.1	-1.5	149.43	101.1
1988	108.3	-9.9	-8.0	153.68	107.1
1989	109.0	-11.3	-17.0	150.9	108.7
1990	133.6	-9.3	-16.0	182.32	100.1
1991	137.0	-10.5	-17.7	153.13	98.7
1992	137.5	-10.5	-16.5	158.15	98.7
1993	144.3	17.9	9.7	163.67	80.5
1994	160.1	18.6	13.1	190.68	77.0
1995	182.2	16.6	12.2	205.68	70.9
1st qtr.1995	41.9	2.9	2.0	206.64	69.8
2nd qtr.1995	43.4	5.0	4.2	210.17	68.4
3rd qtr.1995	43.5	7.1	2.6	208.6	70.0
4th qtr.1995	43.5	1.5	2.6	206.10	70.4
January 1995	12.5	0.6	-1.0	199.29	73.9
February	13.5	0.7	-1.1	199.13	72.5
March	16.2	1.6	1.8	219.93	68.3
April	12.9	1.6	-1.4	227.35	64.1
May	16.7	1.2	1.5	216.17	67.4
June	16.1	2.1	2.4	216.14	67.5
July	16.3	3.4	1.4	214.85	68.3
August	16.5	1.6	1.9	214.61	68.3
September	15.6	3.6	1.9	206.62	71.0
October	16.4	2.1	-1.5	204.47	69.8
November	16.3	2.0	2.1	205.8	70.8
December 1995	2.0	2.0	2.0	203.63	71.1

UNITED KINGDOM					
	Exports	Imports	Current account balance	Effective exchange rate	Effective exchange rate
1985	132.4	-5.7	3.8	0.9580	100.0
1986	132.1	-4.4	1.7	0.9580	100.0
1987	112.3	-18.4	-7.1	0.7047	89.3
1988	120.9	-32.3	-25.0	0.6943	89.3
1989	120.9	-36.7	-46.5	0.6943	89.3
1990	142.3	-28.5	-26.6	0.7150	89.8
1991	147.7	-14.7	-11.7	0.7002	90.5
1992	147.7	-14.7	-11.7	0.7002	90.5
1993	155.1	-17.2	-14.2	0.7790	79.9
1994	174.0	-14.0	-2.7	0.7738	80.1
1995	186.4	-14.4	0.6	0.8180	76.2
1st qtr.1995	46.2	-2.4	-1.1	0.7974	78.8
2nd qtr.1995	47.7	-4.1	-1.6	0.7974	78.8
3rd qtr.1995	46.9	-4.3	-1.9	0.8285	75.7
4th qtr.1995	47.9	-3.3	0.8285	75.7	75.7
January 1995	15.3	-0.9	n.a.	0.7986	79.9
February	15.4	-0.8	n.a.	0.7986	79.9
March	15.4	-0.8	n.a.	0.8141	79.9
April	15.4	-1.1	n.a.	0.8271	75.9
May	15.3	-1.1	n.a.	0.8271	75.9
June	15.3	-1.1	n.a.	0.8271	75.9
July	15.3	-1.1	n.a.	0.8271	75.9
August	15.3	-1.1	n.a.	0.8271	75.9
September	15.3	-1.1	n.a.	0.8271	75.9
October	15.3	-1.1	n.a.	0.8271	75.9
November	15.3	-1.1	n.a.	0.8271	75.9
December 1995	15.3	-1.1	n.a.	0.8271	75.9



## COMPANIES AND FINANCE

# T&N cuts last link with asbestos

# T&N puts spark into German pistons group

Tim Burt on a much-needed change in attitudes

By Tim Burt

T&N, formerly one of the world's largest asbestos companies, severed its links with the controversial building material yesterday by agreeing to sell its asbestos mines in Africa.

Ending more than 75 years of asbestos production, T&N said it was selling its construction and mining operations in Zimbabwe and Zambia for \$80m.

Sir Colin Hope, chairman and chief executive, described the deal as a landmark for the group. "It leaves T&N as a straightforward automotive business and gets rid of its past," he added.

Asbestos - the cause of asbestosis and mesothelioma cancers - has been a damaging legacy for T&N. It has forced the group to pay more than \$300m in out-of-court compensation settlements over the past 10 years. T&N's 1995 results tomorrow are expected to include a \$50m charge to cover the cost of compensation and litigation.

Sir Colin said: "The asbestos activities were not thought to be desirable even though they were profitable." Last year the asbestos mining business made pre-tax profits of \$15.9m.

The buyer is Africa Resources, a company formed by a consortium of Zimbabwean industrialists to continue asbestos production and protect the jobs of the 7,000 workers employed by the mines. Much of the asbestos produced is exported to Japan, where it is still widely used in the construction industry.

The disposal is the latest stage in T&N's attempt to bury its past as an asbestos producer. In December, it overcame the last big property lawsuit involving asbestos when a New York jury rejected a \$180m damages claim by Chase Manhattan bank.

Sir Colin said only one big legal hurdle remained - a possible appeal to the class action agreed in the US last year setting fixed compensation payments for asbestosis victims.



Cross-border management

A sign in the lobby of Burscheid's largest employer reads simply "Mit System in die Zukunft" - tackling the future systematically. The management at Goetze, the components manufacturer headquartered in the west German town, adopted the slogan after being acquired three years ago by T&N, the British components and specialist engineering group.

Mr Klaus Junge, managing director, says the new owners brought a much-needed change of attitude to the piston rings manufacturer, which had endured three years of mounting losses before T&N agreed to buy it for DM250m (\$170m) in 1993.

"When I came here there were serious problems. Under the old family owners, it had not adapted to new technology and was arrogant with its customers - they were deciding who deserved to be supplied," says Mr Junge. He was recruited from BMW in 1992 as the Goetze family made a last attempt to revive the business. By that time, however, it was in an advanced state of disrepair.

For T&N, Goetze looked very appetising. It promised to give the company a sizeable share of the German market for piston rings, an important engine component, while also expanding its manufacturing base in north America.

Mr Ian Darke, drafted in from T&N to oversee the acquisition and work alongside the German management, recalls: "They were a formidable competitor in Europe with half of the market. But it had the trappings of being rich and having a bloated overhead structure." There were 10 layers of management and seven grades of secretary. It had expanded into non-core areas such as elastomers and plastics, which came under margin pressure just when fierce supplier competition forced the auto components side to cut

prices by up to 35 per cent.

With the agreement of T&N, the Goetze management began to restructure the business. Mr Junge recruited BMW colleague Mr Stefan Prigge to help push through the programme, which saw Goetze cut 1,900 jobs, about 30 per cent of the workforce and close down inefficient production lines.

Mr Prigge says the process was made easier by the recession in Germany, enabling the company to win works council support for the root and branch restructuring. "You could not have done these things under the old owners. There was a culture of hierarchy handed down by the family that prevented change."

Both German executives, nevertheless, claim the reorganisation was a home-grown initiative rather than one imposed by their British parent. They regarded T&N as the mechanism that released Goetze from its inertia rather than the driver of change.

"We understood what needed to be done and were given the freedom to pursue our own course," says Mr Junge.

Fortunately for Goetze, the restructuring coincided with a revival in the European car industry which lifted volume sales and profits. That enabled T&N, which is tomorrow expected to announce increased underlying profits of \$128m (£110.7m) - to take the credit for what outwardly seemed a remarkable turnaround.

Costs were cut sharply and Goetze returned to profit in 1994, thanks partly to more aggressive marketing as well as increased demand.

Having completed the restructuring, the German management at Goetze has been able to draw on T&N's financial muscle to invest in new technology and production facilities. This change from fire-fighting to consolidation, however, has exposed differences in Anglo-German management attitudes.

Mr Prigge claims that German engineers are "vision-driven" in their search for new technological applications, while their UK counterparts

are motivated primarily by short-term cost savings. It is a sentiment shared by Mr Junge, who says: "In the UK, the engineers are much more financially-orientated and that's destroying a little of the creativity."

He adds, moreover, that the idea of creating shareholder value should not permeate right through a company, especially not in research and development.

The Goetze management also takes issue with T&N's rigorous reporting structure, complaining at the number of working parties and steering groups that analyse its financial performance. "It gets to a stage where you don't have time to do the homework on your own operations," says Mr Prigge.

T&N disagrees. Mr Darke says the frequent meetings and detailed financial reporting standards enables the parent company to increase the amount of operational freedom at subsidiary level.

"It is basically a check against the delegated authority given to the operational management."

Despite these differences, T&N wants to encourage the former BMW executives at Goetze to extend their successful model throughout the group's piston and piston rings operations. Mr Junge, therefore, has been promoted to take charge of T&N's global piston products group, while Mr Prigge will take charge of five piston ring plants in Europe.

It shows, according to Mr Darke, that the UK group is willing to adopt the Goetze style on a broader front. "We have worked through the restructuring - gone from contraction to growth and from uncertainty to stability. Now we can take those ideas elsewhere."

This is the third in a four-part series on relationships between overseas subsidiaries and their British parents. The first, examining Center Parcs and Scottish & Newcastle, appeared on February 22. The second, on Holvis and BBA, appeared on February 27.

# Siemens in tie-up with Newbridge

By Alan Cane

Siemens, the German electrical and electronics group, and Newbridge Networks, of Canada, are joining forces to tackle the fast-growing market for advanced networking technology.

The two companies announced yesterday a long-term alliance designed to secure a substantial share of the market for broadband (high capacity) communication equipment.

This market, which industry estimates say could be worth \$8bn worldwide by 2000, is expected to be based on a sophisticated technology called asynchronous transfer mode

(ATM), which allows the simultaneous transmission of voice, data and video images.

The two companies have been collaborating on the development and promotion of networking equipment since 1991, and no financial commitments are involved in the new alliance.

The companies intend to harmonise their broadband product lines through cross-licensing arrangements so that both can offer similar and comprehensive networking equipment. They also plan to work together in development, marketing, sales and customer service. The co-operation will extend to Siemens' partners in the UK and Italy in

Italy. The partners will not compete against each other for customers.

Mr Wolf Rachlitz, executive director of Siemens' networks group, said the two companies would be targeting existing telecoms operators together with new carriers, such as utilities, with little experience of telecoms. The aim would be to provide global, standardised and easy-to-use products.

Siemens' networks group employs 32,400 people and had revenues of DM10.4bn (\$6.8bn) in 1994-95. It is the largest of the company's operating units and accounted for about one sixth of the group's total sales. It manufactures switching and transmission systems, mobile

radio systems and cabling. Newbridge Networks has some 3,000 employees and had sales last year of C\$800.5m (US\$585m), an improvement of 45 per cent on the year before. It develops, manufactures and supplies the equipment companies need to build and manage digital telecoms networks.

Competition for the new alliance is expected from manufacturers such as AT&T, Northern Telecom of Canada and possibly IBM, which has considerable expertise in using ATM for data transmission.

ATM networks are rare at present. The entire market is probably worth less than \$500m, but it is expected to grow rapidly.

# Echo Bay warns of fall in output

By Kenneth Gooding, Mining Correspondent

Echo Bay Mines, the sixth-largest North American gold producer, is warning that its gold output will fall for the third successive year in 1996 and that it will record a second year of losses.

However, Mr Richard Kraus, president, predicts that 1996 will be "the trough year". Output should recover from next year, and by 2000 Echo Bay is expected to produce an annual 1.5m troy ounces of gold - about double last year's output.

Mr Kraus, in London during visits to European investors - whose holdings in Echo Bay increased last year from 28 per cent of the issued capital to 27 per cent - promised there would be future output increases at three of Echo Bay's four mines: Round Mountain, Kettle River and Lupin.

Half the expected output in 2000 would be produced outside North America. Projects with the most potential included Kinkling in the Philippines and Chapada in Brazil.

In North America, the outlook for the proposed Alaska Juneau mine improved after the company recently received permission from the US Environmental Protection Agency to dump crush rock waste into the sea. This would reduce capital costs from about \$300m to roughly \$200m. The Alaska Juneau mine should be producing 300,000 ounces a year for Echo Bay in 2000.

Last year, because Echo Bay was mining lower grade ores, output fell to 754,785 ounces, 8 per cent below the \$17.946 ounces in 1994, which was in turn 5 per cent below the 1993 level.

Cash production costs in 2000 would be substantially below last year's \$235 an ounce (\$214 in 1994) and the expected \$245 to \$255 this year, said Mr Kraus.

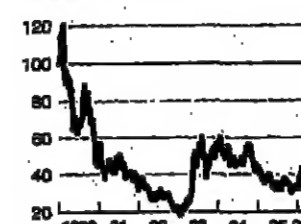
The company reported a loss for 1995 of \$50.1m, or 43 cents a share, against net earnings of \$8m, or 7 cents, in 1994. This was after taking into the profit and loss account some \$68.8m of exploration and development expense, up from \$46.6m. This expense was capitalised

## COMPANY PROFILE: Echo Bay Mines (US)

Market capitalisation	\$1.7bn
Main listing	New York
Historic P/E	N/A
Gross yield	0.6%
Earnings per share	-\$0.43
Current share price	\$13.98



Share price relative to the S&P Composite



Earnings per share



so as not to "put a burden on the balance sheet", said Mr Kraus.

A loss in 1996 could be expected, in part because Echo Bay intended to spend another \$88m this year on exploration and development. Nevertheless, the balance sheet was strong with \$18m of cash at the year end, or \$33m net of debt.

The expenditure had paid off because last year Echo Bay increased its reserves and resources by 42 per cent to 16.9m ounces.

Average realised price for gold last year was up by \$1 an ounce to \$385. Echo Bay reduced its hedging programme and has hedged 1.17m ounces at an average of \$440 an ounce.

# Trading on the terrors in the market

If he could, Professor Desmond Fitzgerald would ban his traders from reading the Financial Times to stop them forming a view about which way a share or a commodity is likely to move.

As head of a specialist fund management company that seeks to outperform stock and commodity markets by following derivatives-based strategies, he does not care if markets go up or down. He makes money by exploiting fluctuations in either direction.

A professor of finance and author of several books on derivatives, Prof Fitzgerald developed his trading strategies - called volatility trading - at Mitsubishi Finance before setting up on his own in 1988. His company, Equitable House Investments, now manages tens of millions of dollars on behalf of a few US and UK institutions.

Prof Fitzgerald has recently teamed with Credit Lyonnais Rouse, part of the French bank, to create a fund based on his trading strategies. Mr David Moore, director of derivative fund management at

CLR, expects the Luxembourg-listed Volatility Fund to attract \$10m when it is launched next month, rising to \$50m by the end of the year.

One potential investor is Mr David White, executive vice-president of AIG International Asset Management, which manages \$200m in alternative investment strategies and hedge funds. He is attracted to the Volatility Fund because "we can access what hitherto has been the province of investment banks and brokers".

Volatility trading has been limited to a few players because it needs to be backed up by computers which track the volatility embedded in options making and forecast future volatility. Volatility is a statistical measure of the tendency of the price of a share, commodity or bond to vary over time. It is one of the most important components in pricing options and other derivatives.

Prof Fitzgerald has developed valuation models which determine whether the volatility implied by the price of an

option contract is too low or too high.

If his model says it is too low, he will buy the option in the expectation that it will rise in value as the volatility increases. If it is too high, he will sell because its value will fall as the volatility decreases.

Prof Fitzgerald thrives when markets over-react because such situations boost volatility. "We exploit the terrors in the market," he says.

One recent case was the surge in gold prices, which meant gold options became very expensive - a perfect opportunity to sell and buy back when the market calmed down.

Equitable House's performance varies from month to month, depending on the success of Prof Fitzgerald's trading strategies. They range from a negative return of 4 per cent in February 1994, when bond markets suddenly fell, to a positive return of 12 per cent in November 1995.

However, the returns do not contain any directional market

risk - which means that in the event of a big stock market collapse, investors should not suffer to the same extent as they would with a conventional portfolio.

It is for this reason that Prof Fitzgerald believes volatility trading is less risky than taking a view on which direction a market will go. Potential investors such as Mr White agree.

Although Prof Fitzgerald's trading strategies do not contain directional market risk, it is important that such complex derivatives-based trades are monitored at all times.

To this end he has developed internal systems which enable him to shield all positions from price changes in the underlying markets.

Risk reports will be available at any time to investors in the fund. Mr White says this risk control should enable him to make annual returns of about 20 per cent from the fund.

He also hopes that volatility trading will not become too popular. "We want to keep it to ourselves," he says.

Antonia Sharpe

# GROUPE PARIBAS

## 1995 Financial results

Income from current activities of FRF 3 billion (USD 599.9 million), of which FRF 1.5 billion (USD 304.8 million) excluding minority interests, before provisions of FRF 5.5 billion (USD 1.1 billion) to cover three specific items. Dividend maintained at FRF 12 (USD 2.43)

For 1995, total consolidated net income of Groupe Paribas amounts to a loss of FRF 3,998 billion (USD 808 million) excluding minority interests. This compares with a profit of FRF 1,715 billion (USD 359.9 million) excluding minority interests, for 1994. These losses are due to the decision to allocate provisions to three specific items which will no longer limit the Group's future profitability.

### Consolidated net income

	1994	1995	1995
(in millions)	French francs	USD	
Total net income	3,127	(2,549)	(515.2)
Net income, excluding minority interests	1,715	(3,998)	(808.0)
Per share (in French francs and dollars)	15.60	(33.90)	(6.85)

### An exceptionally strong provisioning initiative

These provisions amount to FRF 5.5 billion (USD 1.1 billion) and are composed of the following:

- Reduction in the book value of Compagnie de Navigation Mixte shares

Based on information made public by the new chairman of Compagnie de Navigation Mixte (CNM) on CNM's real situation and the new strategic direction Groupe Paribas plans to pursue in terms of this shareholding, Compagnie Financière de Paribas has decided to lower the book value of its holding in CNM.

- Strategic repositioning of Cogedim
- The Group has decided to limit Cogedim's activities to residential property development. Provisions were made on:
  - office buildings which will be rented and treated as fixed assets,
  - vacant land now valued at market price,
  - housing stocks to reflect the new deterioration in market prices in 1995.
- Liquidation of assets taken over from Crédit du Nord

Outstanding loans from the UBN and property development businesses, which were transferred to Compagnie Financière de Paribas in order for Crédit du Nord to focus on its core banking business, are now included in their liquidation value.

Continued profits from current operations

Excluding these specific items, consolidated net income on current activities at Groupe Paribas in 1995 amounts to FRF 2,968 billion (USD 599.9 million), of

which FRF 1,508 billion (USD 304.8 million) excluding minority interests. On a comparable basis, this compares with FRF 4,353 billion and FRF 2,941 billion, respectively, in 1994.

These results reflect a banking climate that is hardly favorable for the Group's activities, and poor results in the area of capital markets.

The contribution from each business entity to net income on current activities, excluding minority interests, is as follows:

The contribution of Banque Paribas went from a profit of FRF 789 million (USD 159.5 million) in 1994 to a loss of FRF 551 million (USD 111.4 million) in 1995.

Despite good performances in its core corporate banking, advisory services and securities services businesses and in asset and liability management, losses in capital markets made the bank's results negative in 1995.

Pre-tax profitability of the Bank's core businesses, excluding any capital allocation, represents FRF 1.1 billion (USD 222.3 million) or a 5.3% return on equity in 1995, versus FRF 1,769 billion and an 8.4% return in 1994.

Compagnie Bancaire contributed FRF 338 million (USD 68.3 million), up from FRF 193 million in 1994, confirming the company's recovery.

Crédit du Nord met its goal of returning to breakeven, with a profit of FRF 3 million (USD 606,342) in 1995 after posting a loss of FRF 97 million in 1994.

As in 1994, Paribas Affaires Industrielles (PAI) this year is the biggest contributor to the Group's results. PAI contributed FRF 2,173 billion (USD 439.2 million) in 1995, versus FRF 2,361 billion in 1994, despite a lack of major asset sales.

### Dividend maintained

Based on the earnings capacity of current operations in 1995 and confident in the Group's ability to rebound, the Groupe Paribas Management Board with the approval of the Supervisory Board will propose at the 23 April 1996 Annual Shareholders Meeting to maintain the dividend at FRF 12 (USD 2.43) per share.

Estimated net asset value per share amounts to FRF 438 (USD 88.53) at the end of 1995, after the 1995 results are taken into account, versus FRF 493 at 31 December 1994.

\* All figures converted at the average rate for 1995: USD 1 = FRF 4.9477

**Advance Bank Australia Limited**

US\$150,000,000  
Floating Rate Notes 2006

The notes will bear interest at 6.0625% per annum for the interest period from 5 March 1996 to 5 June 1996. Interest payable value 5 June 1996 will amount to US\$154.93 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

**JPMorgan**

**ALLIANCE LEICESTER**

Alliance & Leicester Building Society

£200,000,000  
Floating Rate Notes due 2000

For the interest period 29th February, 1996 to 31st May, 1996 the notes will bear a Rate of Interest of 6.3175 per cent per annum with interest amounts of £159.30 per £100,000 principal and £1,993.03 per £100,000 principal, payable on 31st May, 1996.

Listed on the London Stock Exchange.

Bankers Trust Company, London Agent Bank

USD 10,000,000,000  
EURO MEDIUM TERM NOTE OF SOCIETE GENERALE  
SEA SOCIETE GENERALE ACCEPTANCE N.V. AND SOCIETE GENERALE AUSTRALIA LIMITED  
SERIES 1974/96-1996

CHF 70,000,000 FLOATING RATE NOTES DUE MARCH 2006  
ISIN CODE: XS0044585523

Notice is hereby given to the Noteholders that, pursuant to the Terms and Conditions of the Notes, the rate applicable to the period from March 1st, 1996 to September 30, 1996 has been fixed at 2.00313% p.a.

Next payment date: September 3rd, 1996

Coupon at: CHF 1,034.96 per Note in the denomination of CHF 100,000

The Principal Paying Agent

**SOCIETE GENERALE BANK & TRUST - LUXEMBOURG**

SEA SOCIETE GENERALE ACCEPTANCE N.V.  
FRF 500,000,000 REVERSE FLOATING RATE NOTES DUE SEPTEMBER 2003  
ISIN CODE: XS0044781738

For the period March 01, 1996 to June 03, 1996 the new rate has been fixed at 9.251955% p.a.

Next payment date: June 03, 1996

Coupon at: FRF 2415.79 for the denomination of FRF 100,000  
FRF 24157.98 for the denomination of FRF 1,000,000

The Principal Paying Agent

**SOCIETE GENERALE BANK & TRUST - LUXEMBOURG**

**PT. INTI INDORAYON UTAMA**  
(Incorporated in the Republic of Indonesia)

Notice of Payment  
Interim Dividend to the Shareholders

Pursuant to Condition 17 of the terms and conditions of the US\$ 80,000,000 7% Convertible Bonds 2006, the bondholders are hereby informed that, at the meeting of the Board of Directors of PT. INTI INDORAYON UTAMA held on the 17th day of February 1996, the Board resolved the payment of a first dividend of Rp.80.0 (Eighty eight only) per share for the year 1995 from retained earnings as of the beginning 1994.

Notes:

- The Dividend shall be distributed to the shareholders whose names are registered in the Company's Register of Shareholders (non-assignable to any third party) on 20th March 1996, at 4.00 pm West Indonesia Time.
- The trade of share at the Jakarta Stock Exchange and Surabaya Stock Exchange till 11th March 1996, shall be executed by Cum Dividend and on 12th March 1996 by Ex-Dividend.
- Dividend shall be paid on 30th March 1996 to the shareholders. The dividend cheque shall be delivered by mail to the address of the shareholders, which can be cashed at UNIBANK branches throughout Indonesia.
- The shareholders who prefer to receive such dividends via transfer into the shareholders' own names shall give notice and provide the original identities not later than 20th March 1996 to our Stock Administration Bureau.
- In case of change of address, the shareholders shall notify us in writing by mail, and upon showing the original identities not later than 20th March 1996 addressed to the Stock Administration Bureau whose address is:

PT. INTI INDORAYON UTAMA  
Stock Administration Bureau  
Jalan Jantar No. 18, Menteng  
Jakarta 10340 Indonesia

By order of the Board  
PT. INTI INDORAYON UTAMA  
4th March 1996

SEA SOCIETE GENERALE ACCEPTANCE N.V.  
FRF 500,000,000 REVERSE FLOATING RATE NOTES DUE JUNE 2003  
ISIN CODE: XS0043249860

For the period March 01, 1996 to June 03, 1996 the new rate has been fixed at 10.501955% p.a.

Next payment date: June 03, 1996

Coupon at: FRF 2742.18 for the denomination of FRF 100,000  
FRF 27421.77 for the denomination of FRF 1,000,000

The Principal Paying Agent

**SOCIETE GENERALE BANK & TRUST - LUXEMBOURG**

## NEWS DIGEST

## Acquisitions boost WestLB result

Westdeutsche Landesbank Girozentrale, Germany's third-largest bank, yesterday reported a provisional 2.6 per cent increase in operating profits before risk provisions to DM1.87bn (\$1.27bn). A big fall in risk provisions meant that operating profit including risk and depreciation write-offs increased 48.5 per cent to DM1.65bn. The bank, which is owned by the state of North-Rhine Westphalia and regional savings institutions, managed only a small increase in interest surplus of 0.9 per cent to DM2.57bn, a reflection of the margin squeeze in the German banking sector.

In line with many other German companies, WestLB expanded more abroad than at home: in London, staff levels rose from 90 to 466. New hirings and higher pensions provisions resulted in a 17.5 per cent rise in staff costs. The result was also boosted through the first-time consolidation of Banque d'Orsay in France, which WestLB bought early last year to strengthen its asset management business; Deutsche Aussenhandelsbank in Berlin; and Westdeutsche Immobilienbank, a real estate bank in which WestLB holds a 50 per cent stake. WestLB increased the dividend to its owners from 5 per cent of its core capital to 6 per cent.

Wolfgang Münchau, Frankfurt

## Skandia seeks Pohjola merger

Shares in Pohjola, the Finnish insurer, jumped nearly 10 per cent to FM79.7 yesterday after Skandia of Sweden indicated it would like the two companies to merge. Mr Björn Wolrath, chief executive of Skandia, one of the Nordic region's two biggest insurers, told a Swedish business magazine that a merger "would undoubtedly be rational and profitable both for customers and the companies themselves".

The two groups already collaborate, and the co-operation is cemented by cross shareholdings. Skandia has 10.9 per cent of Pohjola's shares, while Pohjola holds 10.5 per cent of Skandia. Both stressed they were not in talks, and said no discussions were planned.

A Helsinki-based analyst said the biggest hurdle for Skandia would be nationalist sentiment. Merita, the big Finnish financial services group, has 27.4 per cent of Pohjola's votes and about 16 per cent of its capital.

Christopher Brown-Humes, Stockholm

## Newsprint price rise plan shelved

Fletcher Challenge Canada has become the first North American paper producer to abandon plans for a newsprint price increase on April 1. In another sign of a weak market, Fletcher has also assured customers that prices will not be raised for the rest of this year.

Fletcher and other newsprint mills announced the list price rise of about US\$50-\$55 a tonne to \$875 last autumn when it was widely thought that newsprint would escape the general downturn in paper markets. Newsprint prices have almost doubled since late 1993. However, a combination of paper conservation measures, disappointing advertising and lower circulation has dampened demand in recent months.

Fletcher Challenge Canada's share price slipped 38 cents to C\$17.76 in early trading in Toronto yesterday, after last year's peak of C\$24.75.

Bernard Simon, Toronto

## Enso-Gutzeit ahead strongly

Enso-Gutzeit, the Finnish forestry group, yesterday reported 1995 profit after financials up 66 per cent from FM1.57bn to FM2.6bn (\$677m). Operating profit rose 50 per cent to FM3.6bn on sales up from FM1.7bn to FM2.9bn. Earnings per share increased 38 per cent from FM7.16 to FM9.97, and the dividend was raised from FM1 to FM2.5. The shares rose 1.5 per cent to FM22.50.

Increasing uncertainty in the markets for forestry products meant group results in 1995 would be weaker than in 1994. Return to normal had proved slower than expected in fine paper orders after the slowdown in late 1994. The market for publication paper remained strong and that for food packaging boards was still in balance, while prices of sawn goods were unsatisfactory despite a slow recovery.

The merger with Vetsilvato under the new name Enso would come into force on May 1. Combined results of both companies on a pro-forma basis show profit after financial items of FM3.5bn on sales of 28bn. Vetsilvato achieved a profit after financial items of FM1.14bn, up from FM338m in 1994 on sales of FM7.1bn, up from FM6bn.

AFK News, Helsinki

## Eni estimates 33% advance

Eni, the partially privatised Italian energy group, yesterday estimated 1995 net profits at L4,300bn (\$2.7bn), up 33 per cent, while turnover rose 12 per cent to L56,000bn. The group, which controls the EniChem chemicals arm, Snam, the gas producer, and Agip, the oil company, floated 15 per cent of its capital in Milan, London and New York last November.

The shares closed - before the release of estimated results - up 1.82 at L5,950, compared with the issue price of L5,250. Eni said operating profit was about L10,100bn, up 36 per cent, due partly to containment of losses at operations being sold. Disposals of unwanted subsidiaries, of which 80 per cent were in the petrochemicals sector, amounted to L2,100bn.

This brings the value of sales since 1982, when Eni began to clean up its balance sheet in preparation for flotation, to L6,300bn. Net debt fell from L23,800bn to L17,600bn. Eni will announce later whether it will pay a dividend. Last year it made a dividend payout to the Treasury of L398bn, its first for 23 years.

John Simkins, Milan

## Polygram backs Redford channel

Polygram, the entertainment group, is investing in the Sundance Channel, the cable and satellite channel launched by the actor Mr Robert Redford (right). Polygram is acquiring for an undisclosed sum a 50 per cent equity stake in Sundance Channel, and orchestrating the launch of the channel outside North America. Sundance Channel was developed by Mr Redford to relay independent films, and was launched in the US last week on Showtime Networks, part of Viacom, the US entertainment group. A number of Polygram's films have debuted at the Sundance Festival, including *The Usual Suspects*, *Backbeat* and *Four Weddings and A Funeral*. Mr Michael Kuhn, chairman of Polygram Film Entertainment, said that the Sundance Channel deal represented an opportunity "to build up asset value from our content interests".



Alice Ranssthorp

## Marriot settles with the Pru

A long-running feud between Host Marriott, the US hotels group, and the US fund management arm of Prudential, the UK insurer, was finally resolved with an out-of-court settlement yesterday. The dispute dates back to 1992, when Marriott's plan to break into two companies led to a collapse in the price of bonds the company had issued only months before, attracting the ire of PPM America and other bondholders. PPM and a small number of other bondholders went to court over the issue, arguing that it set a dangerous precedent for the bond markets. They lost at trial in 1994, but have since appealed the decision.

Under the agreement announced yesterday, PPM and the others agreed to drop their appeal and all other claims. Marriott said it had agreed to pay the group \$1.25bn, which represented a small fraction of the costs expended by the bondholders in pursuing the case. Richard Waters, New York

## Indosuez recovery masks operating weakness

By Andrew Jack in Paris

Indosuez, the banking arm of Suez, the French financial and industrial holding company, yesterday reported a return to profitability in 1995 despite a substantial decline in operating income.

The group showed net income of FF107m (\$21.2m) for the year, against a loss of FF1.08bn for 1994, after a significant reduction in provisions to FF1.36bn from FF2.80bn.

However, the figure concealed a sharp underlying fall in operating profits, which were cut 24 per cent to

FF2.13bn from FF2.81bn. Although the group reduced operating costs 5.2 per cent to FF3.75bn, banking revenues fell 9.6 per cent to FF10.88bn from FF12.04bn.

Indosuez said 1995 had proved "a difficult year", explained by the depreciation of the franc against the dollar and the yen, and by disappointing volumes in its market activities. It said there had been a substantial decline in the amount of derivatives, arbitrage business and European transactions on the primary markets.

It added that the "morosity" of numerous stock markets and the

"wait and see" attitude of many clients had also helped depress business in its private banking and management divisions.

The bank's strength in Asia - a region growing strongly, in which it said it required few provisions - helped raise volumes and margins, but was offset by low demand and tough competition within Europe.

However, Mr Christian Maurin, the new chairman of the bank, pointed out that the second half of last year had shown an important recovery in operating profits to FF1.25bn, compared with FF387m in the first six

months. Indosuez took new provisions against French property activities of just FF87m, compared with FF1.79bn last time. This reflected its decision to withdraw from such operations.

Last year it transferred FF7.9bn in property promotion and loans to developers to the parent Suez company. It said the costs of these loans in 1994 had been about FF2.1bn.

The bank's new non-property provisions included FF330m against its loans to Eurotunnel, operator of the Channel tunnel rail link which suspended interest payments to its

creditor banks last autumn.

The contribution to group profits included FF287m in net exceptional gains, including a capital gain of FF505m from its shares in Gartmore, the UK-based fund manager, which it transferred to the Suez parent and which were sold last month to National Westminster Bank.

The bank highlighted the changes finalised at the start of this year which are designed to relaunch it for 1996, including a FF1bn recapitalisation by Suez, its strategic focus on Europe and Asia, and the creation of a two-tier board structure.

## Year of 'sharp contrasts' for EVC

By Jenny Luesby

EVC, Europe's largest producer of PVC, yesterday reported a rollercoaster year in its first full year of independence, with after-tax profits up 90 per cent, despite negligible profits in the second half.

Established as a joint venture by ICI of the UK and Enichem of Italy, the company was floated in Amsterdam in November 1994.

Since then, it had experienced "a year of sharp contrasts", the company said.

"Strong demand, high operating rates and improving prices in the early part of 1995 were followed by a summer of weakening demand, destocking and increasing imports into western Europe."

Mr Nigel Taylor, finance director, said demand had fallen 30 per cent between the first half and the second. As a result, the company's PVC business had only broken even in the second term.

For the year as a whole, operating profits increased 60



Nigel Taylor (left) and Ettore dell'Isola: recent signs of improvement in the PVC market

per cent to F1176.5m (\$108.8m), while after-tax profits rose to F1163.8m, from F186.3m in 1994, on a pro-forma basis. Sales were up 3 per cent at F12.63bn.

PVC, which accounted for sales of F1.47bn, generated operating profits of F1153m - up from F1107m last year.

The company's other sales of F1.06bn were for ready-mixed plastics and specialist plastic materials. In 1994, EVC made operating profits of just F13.4m in these businesses, but a concerted cost-cutting drive had lifted this to F124.7m last year, Mr Taylor said.

The company also reported recent signs of improvement in the PVC market, with imports abating and destocking coming

to an end. "The halt in plastic buying by China, last year, sent a lot of displacement imports into Europe, mostly from the US," said Mr Ettore dell'Isola, chief executive. However, PVC prices had now fallen so low that imports were no longer being attracted.

The plastic is selling for \$5.70 a tonne on the European spot market, down from a peak of a \$10.80 a tonne in April last year.

The slight recovery in demand had allowed EVC to lift its prices on March 1. Meanwhile, its raw material prices had fallen sharply, and the company was hopeful of some demand growth this year.

The group had also reduced

its working capital last year, cutting stocks by the equivalent of 10 days' sales, to an all-time low of between 30 and 35 days. Debtors had also been cut by the equivalent of 10 days' sales.

These reductions resulted in net cash flows, before financing, of F1216.8m, leading to a positive net cash balance, at year-end, of F1181.8m.

The company reduced fixed costs and overheads to F1620m last year, compared with more than F1700m the previous year, although this had been helped by the devaluation of the Italian lira and the pound. Earnings per share rose by 90 per cent to F111.20, and the company proposed a dividend of F13.00.

## Mittelstand makes an impression on the news stand

Cordelia Becker on German and Swiss publishing success in the Czech Republic

When Mr Vaclav Klaus, prime minister of the Czech Republic, decided to publish his recent book in German, he chose not a Czech publisher, nor even one of the big German groups, but rather Pausen Neue Presse, a medium-sized company. The reason: it has become one of the most powerful publishers of regional newspapers in the Czech Republic.

PNP is one of a number of German and Swiss publishers that have rushed into the Czech Republic since 1991 - the date of the first wave of coupon privatisations - snapping up newspapers. Now, taking advantage of their strong currencies, they are turning their attention to the magazine market.

The scale of the foreign publishers' invasion has been startling: more than half of the country's newspapers now have non-Czech owners. They have also been investing heavily in printing plants.

PNP owns 37 daily regional newspapers and has no competitor in Bohemia. The group's sales have increased from DM88m in 1988 to DM850m (\$776m) last year, driven mostly by its Czech expansion.

In contrast, the Koblenz-based Mittelrhein-Verlag has targeted the Moravian market, where it publishes the second biggest tabloid, *Express*. The medium-sized publisher Rheinische Post prints more newspapers in Prague than in its home town of Düsseldorf. It owns the republic's biggest daily newspaper, *Mladá Fronta Dnes*, which has a circulation of 400,000.

Although the advertising market is worth DM18bn, according to Prognos, a Swiss market research company, the sector remains overcrowded. There are more than 50 newspapers aimed at a population of only 10m, and the market is

facing a shake-out caused by rising costs and slowing revenue growth. Newspaper sales growth is slowing. "Now that they trust the press, Czechs do not buy five newspapers any more," says Mr Bodo Meisner, general manager international markets at Ringier, the Swiss publishing house which sells the top-selling tabloid *Blesk* and the daily *Lidové Noviny*. On the cost side, newspaper prices have soared in the past 18 months. The better capitalised German and Swiss publishers have been better able to cope.

Mr Richard Ziegmann, managing director of Mittelrhein-Verlag, warns: "Only four of the 10 biggest newspapers can survive." He believes his own company will be among the survivors, as well as Ringier.

"Speed, determination and consistency" were the keys to success, says Mr Roland Rager, PNP's chief executive. By being first, they left the Scandinavian and Dutch late-comers few opportunities.

Now the newspaper war is won, the Germans and Swiss are moving on to magazines. Big groups such as Ringier, Marquard (publisher of *Popcorn*), and the large German publishing companies Bauer (Tina) and Burda (Lisa) are present. They either bought the best local titles, or started publishing versions of their domestic titles in Czech.

PNP recently entered the market with a TV guide, which sells almost as well as women's magazines produced by Burda and Bauer. The western groups have focused on the Czech Republic's growing consumer awareness. For the first time, Czechs are being offered consumer advice magazines. The only title in the country published by Springer, the German group, is a consumer motor magazine called *Auto Tip*.

Czech publishers are being squeezed out. Mr Miroslav Pavel, general manager of *Ekonomika*, one of the few local profit-making publishers, which produces special interest titles, sees international expansion as the only avenue open. He wants to invest soon in Ukraine. Otherwise, he is afraid, the Germans and Swiss might, once again, be first to the market.

## Brewers vying for Czech stake may get Budvar bonus

By Vincent Boland in Prague

Three international brewing groups have made initial bids for a stake in a regional Czech brewery in a contest that could affect the future of Budvar, the Czech brewery that makes the original Budweiser beer.

Bass of the UK, Anheuser-Busch of the US and Denmark's Carlsberg are vying for a minority stake in Jihočeské Pivovary (South Bohemian Breweries), a privatised brewery controlled by an alliance of domestic investment funds.

At the same time, a tentative proposal to merge SBB with Budejovický Budvar, which is 100 per cent state-owned, is being discussed by the investment funds and Budvar's management.

If both developments proceed, the winner of the SBB stake would become a shareholder in the larger group, with Budvar as its centrepiece. It would also and speculation over the future of Budvar, considered the jewel in the crown of Czech brewing.

The presence of Anheuser-Busch on the list of potential partners for SBB poses a dilemma for the government. The US brewer has been wooing Budvar for several years in an attempt to end a long-running dispute over rights to the Budweiser brand name in Europe. If SBB selected Anheuser-Busch, any

merger with Budvar would be abandoned, the sources said.

Any decision on a merger is not expected until SBB shareholders have decided on a strategic partner. Bass, Anheuser-Busch and Carlsberg have lodged indicative, non-binding offers with SBB's financial adviser, HSBC Investment Bank, subject to due diligence.

SBB management and shareholders are expected to discuss progress in their search for a partner at a meeting later this month. Sources close to SBB said yesterday a decision would be made at that time on whether or not to proceed. If a partner is chosen, it would likely acquire new shares in SBB, with the proceeds used to modernise and expand the brewery's production.

A merger of Budvar and SBB would make commercial sense, say industry experts. The two groups share a site in the southern town of Ceske Budejovice and were part of the same company during the communist era. They were demerged when the government privatised SBB.

A stake in the merged group would also be lucrative for the new partner. Although Budvar produces only about 700,000hl of beer annually, it has a strong export market and is a premium beer. SBB's three main brands are mid-market beers with strong regional sales in southern Bohemia.

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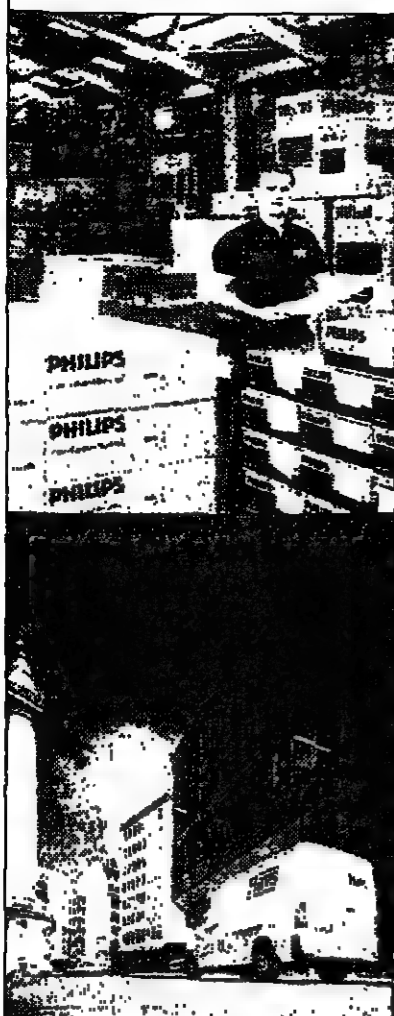
*What  
concentrates our  
mind? The thought that  
unless we continue to be  
brighter and work better  
we do not have a future.  
Which is why from advice  
to implementation, cross-  
border, cross-sector, we  
intend to work until the  
job is not only done, but  
done well. Let there  
be no mistake.*

# etail

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Operating profit up 36% thanks to strong demand for high-quality personnel, temporary staff and facilities management services.

### Results for the 6 months ended 31 December 1995

The steady growth of the Group continues, with progress being recorded across our whole range of businesses.

In the second six months of 1995, compared with the same period in 1994, we achieved 20% growth in pre-tax profits and 21% in earnings per ordinary share.

An interim dividend of 2.6p per share will be paid, an increase of 16% in line with our policy of providing steady growth in our dividends.

In the UK and on the Continent our distribution businesses have started many new contracts in the first six months, from which full profitability will be achieved in the next financial year.

In our commercial businesses both strong organic growth and some small infill acquisitions have maintained the pace of development.

Our personnel businesses have harnessed the investment in advanced information technology to benefit from the continuing trend towards the use of temporary staff.

As well as seeking opportunities to expand selectively, we continue to invest in technology to maintain our ability to add value for customers and to safeguard our leading position in the markets we serve. The quality of our people and services gives us every confidence for the future.

### FINANCIAL HIGHLIGHTS (Unaudited) for the six months ended 31 December

	1994	1995	% Change
Profit before tax	£50.8m	£60.8m	+20
Earnings per ordinary share	8.5p	10.3p	+21
Net dividend per ordinary share	2.25p	2.6p	+16



For a copy of the Interim Statement for 1995, please write to David Beddley, Hays plc, Hays House, Millmead, Guildford, Surrey GU2 5HJ.

The advertisement has been approved by Deloitte & Touche, who are authorized to carry on investment business by the Institute of Chartered Accountants in England and Wales.

## COMPANY NEWS: UK

# IBM swoops on Data Sciences

By Paul Taylor

International Business Machines announced an agreed \$56m (\$146.3m) bid yesterday for Data Sciences, just days before the computer services company was due to be floated on the stock exchange through a placing with institutional investors.

IBM's pre-emptive strike, its second largest acquisition in Europe, underlines the determination of the US computer group to expand its presence in the systems integration and outsourcing sectors, particularly in the UK market where IBM already has service revenues of \$467m.

The deal is also likely to reinforce investor confidence in the UK computer services sector first demonstrated in the flotation of Computer Management Group in December.

Since then Data Sciences, FT Group and Trianon have all announced flotation plans. Data Sciences' placing, which has now been cancelled, was expected to value the Farnborough-based group at about \$80m.

Data Sciences employs about 1,700 people mostly in the UK and the Netherlands. It was a 50% management buy-out from Thomson EMI, the rental and music company, in July 1991 backed by CinVen, a venture capital company, but quickly ran into trouble meeting its buy-out targets before Mr Andy Roberts took over as chief executive in 1993 and installed a new management team.

Since then the restructured and refocused company has grown strongly, reporting an 80 per cent increase in operating profits to \$5.1m in the year to September 30 on turnover up 18 per cent to \$105.7m.

Mr Roberts yesterday described IBM's bid, which represents 36.4 times historic earnings as "a pretty compelling offer" and other shareholders.

He said the bid was "a great offer" which would provide "accelerated opportunities for growth, particularly in Data Sciences' main markets of finance, commercial, defence, telecommunications, government and aerospace."

IBM UK managers emphasised that the acquisition was necessary to help IBM meet its target of 30 per cent growth per year.

Mr Hans-Ulrich Maerki, in charge of IBM's services operations in Europe said the deal was "a unique opportunity" and "a perfect fit with our growth strategy, not only in the UK but also the Netherlands."

## 41% underlying growth for BBA

By Tim Burt

BBA Group, the transportation services and industrial manufacturing company, yesterday underlined its shift from restructuring to expansion by announcing a 41 per cent increase in underlying profits.

The company, which has cut more than 2,000 jobs and sold businesses with combined sales of about \$400m in the past three years, saw pre-tax profits jump from \$24.3m to \$118.5m (\$182.5m) in 1995.

Although turnover fell 14 per cent to \$1.18bn, Mr Roberto Quarta, chief executive, said sales from continuing operations of \$935.4m (\$935.2m) showed the group was moving into a growth phase.

"People accused us of pushing up margins at the expense

of growing the business. We've proved them wrong," Mr Quarta, who has aggressively overhauled BBA since his arrival from BTR three years ago, said the restructuring had been largely completed.

Last year, that involved the sale of the Automotive Products subsidiary for \$181m; the closure of the Page Avjet aircraft interiors business; and the disposal of several other non-core companies.

Losses on the sale and termination of such businesses contributed to exceptional items of \$51.7m (\$20.4m), which in turn held pre-tax profits to \$66.8m, up from \$63.9m.

Mr Quarta said it was a pleasing result, especially given the margins on continuing operations rose from 9.1 per cent to 11.7 per cent. Return on net assets, more-



Roberto Quarta: restructuring had been largely completed

over, rose from 21 per cent to 27 per cent. "We are now going for top line growth while seeking further productivity improvements," he added.

BBA is expected to seek additional cost savings by integrating two German textile plants and improving capacity utilisation at Fiberweb, the non-woven

fabrics arm of Holvis, the Swiss industrial group acquired for \$209m last year.

Maider contributions from Fiberweb helped lift pre-tax profits in the industrial division from \$66.1m to \$69.6m. The transportation division saw underlying operating profits rise from \$37.7m to \$58.7m.

### RESULTS

	Turnover (\$m)	Pre-tax profit (\$m)	EPS (\$)	Current payment (\$)	Date of payment	Dividend (\$)	Time for year	Year last year
AUT *	Yr to Dec 31	1,525 (1,376)	79.14 (46.3)	0.31 (0.78)	nil	nil	nil	nil
Automotive & Bond *	Yr to Dec 31	1,197 (1,031)	0.38 (0.38)	0.71 (0.71)	nil	nil	nil	nil
Automotive Foods *	Yr to Dec 31	1,225 (1,191)	32.1 (21.7)	15.46 (10.03)	2.35	May 15	2.1	4.1
BBA	Yr to Dec 31	1,193 (1,389)	66.84 (83.94)	2.4 (8.4)	4.2	May 24	3.25	6
British Polythene	Yr to Dec 31	351.8 (258.8)	25.1 (19.2)	47.391 (37.8)	11	May 31	3.1	16.5
Continental	Yr to Dec 31	18.3 (17.4)	0.565 (0.529)	2.51 (2.28)	1	Apr 16	1.4	1.4
Coca Brothers	6 mths to Jan 31	-	21.7 (16.4)	12.641 (10.09)	3.2	Apr 19	2.9	8.7
Continental Partner	6 mths to Jan 31	41.5 (42.4)	3.371 (4.044)	7.31 (3.8)	0.3	Apr 18	0.3	0.6
EPF	Yr to Dec 31	21.5 (12.4)	5.1 (3.35)	8.491 (8.74)	1.5	May 7	1.225	2.1
General Cable	Yr to Dec 31	30.7 (21.1)	21.2 (19.3)	8.11 (8.2)	2.75	May 24	2.7	4.5
May & Roberts	Yr to Dec 31	0.673 (0.701)	0.021 (0.03)	35.3 (11.8)	2.6	May 31	2.25	7
Nave	6 mths to Jan 31	468.6 (277.8)	40.9 (30.8)	10.3 (8.5)	2.6	May 31	2.25	7
Indrum Justice	Yr to Dec 31	88.7 (82.2)	15.8 (13.8)	10.2 (8.3)	2.6	June 3	2.2	3.3
Mackie Ind	Yr to Dec 31	22.7 (19.5)	3.27 (3.59)	31.11 (17.5)	7.3	May 22	1	11
Parkside Foods	Yr to Dec 31	452 (291.1)	4.6 (19.7)	8.1 (7.2)	2.75	May 24	2.7	4.5
Polythene	Yr to Dec 31	48.3 (45.9)	5.839 (5.819)	18.3 (17.8)	5.3	Apr 22	4.9	7.5
Smith & Nephew	Yr to Dec 31	1,026 (864.5)	176.8 (149.8)	10.29 (4.98)	3.49	July 3	3.26	5.05
Webberson (UK)	6 mths to Jan 31	45.2 (51.6)	5.554 (4.76)	14.84 (12.4)	8.1	May 17	2.75	8

Investment Income: 143.1 (180) 0.065L (1.08L) 0.1L (\$3.1) Current payment (\$) Date of payment Corresponding dividend Total for year Time last year

Earnings shown basic. Dividends shown net except \*gross. Figures in brackets are for corresponding period. \*US currency. \*Jan stock. \*Jan currency. \*Apr accounting change. \*Apr accounting change. \*Apr accounting change. \*Apr accounting change.

## Worldwide Information Systems



## 1995 RECOVERY AND VIABILITY CONFIRMED

The Board of Directors of Compagnie des Machines Bull, under the chairmanship of Jean-Marie Descarpentries, finalized the Company's accounts for 1995. The Board then went on to consider the two first important initiatives of 1996: the M.O.U. (Memorandum of Understanding) between Packard Bell, Bull and NEC, which it approved and the new organization.

Revenue build firm on a comparable basis and exceeding the impact of exchange rate fluctuations. It was up 0.5% to FF 26.6 billion.

In 1995, the Group issued the following success:

- System Operations
- Services and Systems Integration
- South America
- Personal Transaction Systems (CPI)
- Open Systems and Software
- Europe (excluding France)

The Open Systems and Software division increased revenue by 12% thanks to the success of Unix® systems based on Power PC™, which grew by 30%, offsetting the decline of certain end of life products.

Zenith Data Systems, Enterprise Systems and Customer Services divisions had decreased revenue. The French sales network had a mixed performance, accounted by the weaknesses of the French market. On the other hand, the success of the new range of Escala Systems in the French market propelled Bull France in one year from the 11th to the 2nd place among manufacturers or Unix® servers (source IDC). Bull France grew in Services and Systems integration faster than the market (source SFIE).

\* Power PC™ is a trade mark of IBM Corporation.

For information please contact:  
Communication France/Bull  
Vincent Bouché  
68, route de Valenciennes - 78340 Louveciennes  
http://www.bull.com

## 1995 RESULTS

"After two years of extremely hard work, Bull has kept its ambitious contract. I want to pay tribute to the talents and the fighting spirit of the women and men of Bull who have demonstrated our Company's formidable potential. I want to thank our customers for their confidence and their loyalty throughout our turnaround. In 1996 we intend to keep up the momentum in order to win the battle for growth and better profitability."

Jean-Marie Descarpentries

## IMPROVEMENT AND TIGHT CONTROL OF ALL INCOME STATEMENT ITEMS

(in FF millions)	1994	1995
Operating profit	239	849
Operating profit nearly quadrupled (x3.5).		
Operating margin rose from 0.3% to 3.2% of revenue.		
Net financial charges	(521)	(326)
Financial charges came to only 1.2% of revenue in 1995.		
Other income and charges	(377)	(217)
The Group posted down the entirety of goodwill relating to Zenith Data Systems and also miscellaneous expenses (FF 141 million).		
Provision for restructuring	(1300)	0
In view of the turnaround Bull made no further provision for restructuring in 1995.		
Net profit	(1960)	306

## SHARP RISE IN PROFITABILITY

The net profit earned in 1995 represents 1.1% of revenue, an improvement of 19 points over 1994 (-17.9%). Nevertheless, it is still far below the level achieved by Bull's most profitable competitors. Improving profitability is one of the 3 priorities for 1996.

## STRONG DECREASE IN NET GLOBAL DEBT WITHOUT MAJOR DISINVESTMENTS

The low level of financial charges, estimated at 1% of revenue in 1996, opens the way for initiatives to boost growth.

## 1996

### THREE BUSINESS PRIORITIES

- To promote internal growth by developing co-operation with commercial and industrial partners.
- To bring the Group's profitability closer to that of its most successful competitors, in each of its businesses.
- To start strategic moves in 1996, particularly related to external growth, in order to ensure long-term competitiveness of each of Bull's major businesses.

### TWO MAJOR STEPS ALREADY TAKEN IN 1996

- A new organization oriented towards growth and profitability.

The new organization is oriented towards revenue growth through:

- Decentralization of responsibility for operations and for strategy, allowing each division to seize growth opportunities.
- Development of sales effectiveness, sales channels, and customer services.
- Combining the Open Systems and Enterprise Systems divisions into a single large division meeting all the hardware and software needs of our customers' information systems.
- Creation of four new transversal functions: Technology, Sales Development, Logistics, MIS and Special Projects.
- Strengthening of the top management team.

- A first strategic move (Agreement between Packard Bell, Bull and NEC)

Bull and NEC, each already owning 19.9% of Packard Bell's shares - now intend to reinforce Packard Bell, the leader in the mass market for personal computers. Bull with its Zenith Data Systems subsidiary, NEC with FF 1.4 bn to finance the accelerated growth of Packard Bell / Zenith Data Systems.

Forthcoming shareholder events:  
Annual Shareholders Meeting: March 28, 1996  
First half results: End of July 1996

■ Strategy - By Andrew Taylor in London and Hugh Carnegie in Stockholm

## Kvaerner's bid for Trafalgar

## Disposals essential to success

Mr Erik Tonseth, the chief executive of Kvaerner, was quick yesterday to salve Norwegian worries that the group would move its corporate headquarters from Oslo to London in the wake of its proposed takeover of Trafalgar House.

There is little doubt, however, that the real operational power of the group will switch to the British capital as Kvaerner seeks to transform itself into one of the world's biggest construction and engineering groups with a combined annual turnover of more than \$5bn.

Most of the group's senior operational executives will work from London, says Tonseth, who first approached Trafalgar last summer with a view to purchasing its John Brown and Davy engineering subsidiaries.

He was told he had the choice of bidding for the whole group or nothing.

No one yesterday was questioning the operational benefits of merging the groups. Of more concern was whether Kvaerner could raise the cash without putting a large hole in its own balance sheet.

Estimates, based on the most recently-published figures, suggest that the merged group will have net debt of about £1.4bn compared with assets of £1.6bn including £500m of goodwill which, under Norwegian accounting rules, will be included as an intangible asset.

Kvaerner also must be sure that there are no black holes lurking with Trafalgar's order book.

The failure to identify problem contracts, before Trafalgar bought Davy for £114m in 1991, was one of the factors which brought the British group to its knees.

The Norwegian group, however, may take comfort from the fact that Trafalgar's revamped management under the chief executive will already have examined these businesses closely and have started to introduce cost savings. In Davy's case these are planned to reduce annual overheads by £20m.

Since the beginning of this year Trafalgar has cut its worldwide labour force by 3,000 to 33,000. More jobs will be lost when the British and Norwegian groups merge and areas of overlapping management and support services are removed and as non-core businesses are sold.

The British group's broadly-based construction skills and its specialist expertise in designing and building process plants for the metal and chemical industries will fit neatly with Kvaerner's engineering



Engineering a deal: Erik Tonseth (left) Kvaerner president and chief operating officer yesterday with Nigel Rich, chief executive of Trafalgar House

interests in manufacturing turbines for hydro electric schemes and process machinery for oil and gas, and pulp and paper industries.

"Increasingly, construction and engineering customers want a complete service from a single supplier. We will be able to offer a wide range of design, construction, manufacturing and installation skills," says Mr Tonseth.

The match is even more impressive between Kvaerner's offshore oil and gas fabrication business, based primarily in the Norwegian sector of the North Sea, and Trafalgar's offshore interests concentrated in the UK sector.

The merged operations, which already are breaking into international markets such as south east Asia, will be one of the world's biggest offshore oil and gas fabricators

rivaling the current market leaders Brown & Root and McDermott of the US.

Likely to be put up for sale is Trafalgar's Cunard passenger shipping line, its remaining UK commercial property interests and its US housebuilding business.

Kvaerner is expected to sell its shipping interests, mainly refrigerated vessels but including its cruise line Royal Majesty. It also is expected to sell its shareholdings in Bergesen shipping line and Amec the UK construction and engineering group.

The Norwegian group expects to raise about £1bn from disposals.

Doubts about Kvaerner's ability to finance and manage such a huge transformation seem likely to remain. Disposals are crucial if its plans are to succeed.

■ Cunard - By Tim Burt and Charles Batchelor

## Probable buyers include P&amp;O and Carnival

The disposal of Cunard, Trafalgar House's loss-making cruise line, is one of the options being studied by Kvaerner. Another is a joint venture between the eight-ship fleet and another cruise operator, according to Mr Erik Tonseth.

"A number of companies have approached us about the future of Cunard. We think it is worth more than the aggregate value of the ships," Kvaerner's chief executive said yesterday. Cunard's book value in Trafalgar's last accounts was £200.6m.

He hinted that Kvaerner would seek to raise about £250m from Trafalgar House disposals, in addition to the £250m already realised from the UK group's sale of the Ritz Hotel in London and Ideal Homes, its housebuilding arm.

"Cunard would be much better off in the hands of a specialist operator," said one analyst.

Carnival, the US cruise company, is thought to be a possible buyer because Cunard would give it an opening into the fast growing UK and European cruise market. The North American market is the largest, accounting for 5.15m of the 6.13m passengers who took cruises last year, but growth slowed to 5 per cent last year.

In contrast the UK cruise market increased by 24 per cent in 1995 to 352,000 passengers, according to the Passenger Shipping Association. Growth has been fuelled by the entry of Airtours, the holiday company, into the lower

end of the market and the launch last year of the Oriana, the P&O flagship.

Carnival, based in Miami, already has close links with Kvaerner. Since 1990, Kvaerner's Masa-Yards has delivered six large liners to Carnival, the world's biggest luxury cruise operator. But as many of Cunard's vessels are ranked in the "super deluxe" class, it would not broaden Carnival's range of ships, which are also in the top rank.

P&O, by contrast, would expand its market coverage by buying Cunard because its top ship, the Oriana, only comes into the "deluxe" class, according to Mr Peter Wild, a cruise industry analyst. Such a move would propel P&O into the number two position in the international industry with 21,500 passenger berths, compared with 25,500 at Carnival. P&O said it would consider an approach from Kvaerner.

Last December, Cunard reported an annual operating loss of £16.4m amid flat demand for its cruises. Trafalgar, meanwhile, has set aside £30.5m for a root-and-branch restructuring and written down the fleet's book value by £79m.

This follows a catalogue of public relations disasters, dominated by the infamous refit of the QE2 in 1994 which led to large compensation payments to passengers and the departure of Mr John Olsen as Cunard's chairman. As recently as last month a fire broke out on the Sagafjord during a world cruise.

## NEWS DIGEST

## Body Shop rules out going private

Body Shop International, the "green" cosmetics group, has abandoned plans to become a private company, Mr Gordon Roddick, chairman, and Mrs Anita Roddick, chief executive, said yesterday. Shares fell 3p to 146p.

The Roddicks, who founded the company and floated it in 1984 for £4.6m (\$7.1m), said "the considerable level of borrowings required" for a share buyback would have hit future growth. The City believed the minimum offer necessary would have been about 175p a share, which would have valued the company at about £332m. Body Shop said it needed its cash to expand into emerging markets such as India and China.

The Roddicks began talks with banks about turning the Body Shop into a charitable trust last autumn, after the share price touched a low of 107p last year. The Roddicks were dissatisfied with the "short-termist" City, which they felt was undervaluing the company. Mrs Roddick has called City folk "strip-tease dinosaurs". A buy-back would have freed the Roddicks from dealing with shareholders, and would have let them spend more of the company's profits on environmental and humanitarian causes.

Simon Kuper

## Aberdeen in US joint venture

Aberdeen Trust is setting up a joint venture to distribute its investment products in the US with Phoenix Home Life Mutual Insurance of Hartford, Connecticut.

In an associated move, Aberdeen proposes to issue to Phoenix \$37.5m (£24.3m) 7 per cent unlisted convertible subordinated loan notes 2003-05, which will be convertible into new ordinary shares at \$2.15 each.

If they are all converted, the resulting ordinary shares will represent about 17 per cent of Aberdeen's enlarged capital.

## Powell Duffryn disposal

Powell Duffryn, the engineering, ports and distribution group, is selling its 50 per cent stake in an Australian bulk liquid storage business to its joint-venture partner, Koninklijke van Ommen of Rotterdam. The cash consideration is £5.3m (\$8.18m) for net assets of £2.9m. The contribution of the business to Powell Duffryn in the year to March 31 will be approximately break-even.

## Laird buys Texan company

Laird Group has, through its US subsidiary Laird Plastics, bought Brooks Industries, a Texas plastics distributor, for \$8.25m (£5.4m) cash.

Brooks' turnover in the year to October 31 was \$17m and net assets on completion will be \$1.85m. Laird Plastics is one of the three biggest distributors of plastic sheet, rod and tube in North America.

■ Institutions - By John Piddings and Tim Burt

## Welcome relief from pain

Institutional investors in Trafalgar House yesterday welcomed the agreed takeover by Kvaerner, some of them expressing relief at the deal after enduring a sharp fall in the share price and suspension of dividend payments in recent months.

Of the largest shareholders, Hongkong Land - the property investment arm of the Jardine group - said it would receive £224m in cash from the sale of its 26 per cent stake in Trafalgar House, offsetting some of the losses from its ill-starred investment in the UK conglomerate.

The company, which has given irrevocable undertakings to accept the offer, said it would focus its efforts on Asia for the time being.

"We are looking at investments in the region," said Mr Percy Weatherall, chief executive, adding that the group was examining property projects and that it would also continue its expansion in infrastructure.

In London, other institutional shareholders hinted that they too would be voting to

accept the offer. "It's a great relief," said one institution, which asked not to be named. "It was difficult to see how Trafalgar could trade out of its problems, so this is a useful exit."

Another large shareholder said the takeover offered the best prospect for shareholders given Trafalgar's disappointing performance in recent years.

Industry analysts in Hong Kong also welcomed the deal. "This comes as a relief to everybody, and is positive for Hongkong Land," said Mr Vincent Luk, property analyst at James Capel. "It is a good price, but more important is that it resolves the problem of Trafalgar."

Mr Luk said that Hongkong Land was now likely to refocus on the Asia-Pacific region, including property developments in Hong Kong, where the announcement of the award for the Central reclamation project is expected by the middle of the year.

Hongkong Land's stake in Trafalgar was bought as a strategic investment designed to

reduce the dependence of the Jardine business empire on the Hong Kong market ahead of the 1997 handover to Chinese sovereignty. The failure of the investment represented a setback to the strategy, and to the Keswick family which controls Jardine Matheson. However, most investment analysts expressed relief that Hongkong Land had managed to free itself from Trafalgar.

According to Mr Weatherall, the restructuring costs at Trafalgar House, together with asset write-downs, were far greater than it had been possible to determine when Hongkong Land first made its investment in 1992.

He said restructuring efforts were beginning to bear fruit, but that recovery at Trafalgar would have taken a further two or three years.

The overall net deficit against the original investment is about US\$156m. After accounting for previous write-downs, the proceeds from the sale of its Trafalgar stake will therefore generate an exceptional profit of US\$218m.

## British Polythene ahead 31%

By Motohiro Itoh

Acquisitions helped British Polythene Industries, Europe's largest polythene film producer, raise pre-tax profits 31 per cent to £25.1m (£38.7m) in 1995. Shares rose 29p to 723p.

The group yesterday also announced the acquisition of

Bibby & Baron, which makes both paper and polythene bags, for £7.4m in cash and shares. B&B made pre-tax profits of £1.1m in the 12 months to December 2 on sales of £20.4m. It is BPI's fifth purchase since the beginning of 1995.

The eight acquisitions made in 1995 contributed £835,000 to

operating profits of £29.7m. Turnover rose from £268.8m to £281.8m, of which £26.7m came from acquisitions. A further £29.8m came from purchases made in 1994. Mr John Langlands, finance director, said volume rose 6 per cent to 287,000 tonnes. Demand was sluggish in the second half.

## L'legrand

The Board of Directors met under the chairmanship of Mr François Grappotte in order to close the consolidated accounts for the year ending December 31, 1995.

Consolidated financial data (audited) (FF in millions)	1995	1994	Change
Net sales	11,028	10,370	+ 6.3 %
Net income, Group interest	923	785	+17.6 %
Net cash flow	1,882	1,642	+14.6 %
Capital expenditures	1,123	904	+24.2 %

At constant structure and exchange rates, net sales rose 9.4 % in 1995, with business outside France providing most of the impetus.

L'legrand recently consolidated its international positions with the acquisition of Watt Stopper, the leading producer of occupancy sensors for lighting control in the United States.

Capital expenditures came to over 10 % of consolidated sales in 1995, and focused on several wide-reaching projects that included revamped product ranges in safety and power distribution. This more comprehensive product offering allows the Group to head into 1996 with confidence, despite the uncertain economic environment.

The Board will also submit to the Annual General Meeting of Shareholders to be held at Limoges on May 23, 1996 a resolution calling for the payment of a dividend of FF 7.65 per ordinary share and FF 12.24 per preferred share (ADP), compared with FF 6.65 and FF 10.64, respectively, in 1994. After deduction of the advance payment made on February 1, the balance of FF 4.30 per ordinary share and FF 6.88 per ADP will be made payable as of June 14, 1996.

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Correction Notice

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By: The Chase Manhattan Bank, N.A.,

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## LAW

## Driving licence rules pass test



EUROPEAN COURT

Regulations which require citizens from other European Union states living in Germany to exchange their home country driving licence for a German one within a year of taking up residence are not contrary to the Treaty of Rome, the European Court of Justice ruled.

However, the court said that a breach of such national rules could not be treated as driving without a licence, for which the penalty in Germany is imprisonment or a fine.

The case arose out of a prosecution by the Berlin authorities of two Greek nationals, Mrs Sofia Skanavi and her husband, Mr Konstantin Chrysanthakopoulos. Mrs Skanavi was stopped by the Berlin police in October 1993 when driving a car belonging to the company of which her husband was managing director within one year of taking up residence.

She was in possession of a licence issued by the Greek authorities, but did not have a German one, though resident in Germany for just over a year. She was prosecuted for driving without a licence, and Mr Chrysanthakopoulos for allowing a person to drive a vehicle without a licence.

The German court considered that the accused had committed the offence, but believed that the German legislation might be contrary to articles of the Treaty of Rome concerned with free movement. As a result, it referred a question to the European Court for a preliminary ruling.

The German court wanted to know whether the obligation to exchange a driving licence issued by another member state within one year of taking up normal residence in a state was contrary to European law. Driving licences were first made the subject of harmonisation through a 1980 directive. It included provision for the exchange of licences within one year of the holders transferring their residence or place of work from one member state to another. A second directive on licences which removed the obligation to exchange them was introduced in 1991, but will only apply from this July.

The German court also asked whether the penalties imposed by the national authorities in such cases were contrary to European law. On the first question, the European Court reiterated that national rules relating to the issue and mutual recognition of driving licences by member states exerted an influence on the exercise of the rights guaranteed by the provisions of the treaty relating to freedom of movement for workers, freedom of establishment and freedom to provide services.

However, the obstacles resulting from the obligation to obtain a driving licence issued by a host member state would only be totally removed when the second directive on licences takes effect in July. Prior to its implementation, European law did not preclude a state from requiring the holder of a licence issued by another EU country to exchange it for a licence of the host country within one year of taking up residence.

On the second question, the European Court observed that although the holder of a licence may be required to exchange it, the original licence would remain valid in the country which issued it and continue to be recognised by the other EU states.

Therefore, the obligation to exchange licences was essentially a way of meeting administrative requirements and, just as in cases concerning non-compliance with formalities for establishing the right of residence, states could not impose a penalty so disproportionate to the gravity of the infringement that the obligation became an obstacle to free movement of persons.

The European Court concluded that treating a person who has failed to have a licence exchanged as if he were a person driving without a licence, and thus rendered punishable by imprisonment or a fine, was disproportionate and contrary to the treaty.

C-198/94: Sofia Skanavi and Konstantin Chrysanthakopoulos, ECJ FC, February 29 1996.

BRICK COURT CHAMBERS, BRUSSELS

## Bell Canada rings the changes



Ronald Osborne (left), 49, a British-born accountant, has emerged as the apparent successor to Robert Gibbons, Canada's largest telecommunications group, only 15 months after joining. In May Osborne takes over as president from Lynton Wilson, 55, a former banker who continues as chairman and chief executive.

Osborne joined BCE as chief financial officer in January 1995 following the acquisition of Maclean Hunter, the Toronto publishers and cable TV operators. Osborne, who was Maclean Hunter's chief executive, will now be running the day-to-day operations of Rogers Communications Inc. in the communications industry.

He has been described as a sharp corporate player "with a photographic mind". He is also an accomplished amateur singer. Certainly in public he is more loquacious than his boss "Red" Wilson - whose speeches are well known for their terseness and vague generalities. He also has a strong grasp of the north American cable TV industry.

Wilson has succeeded Raymond Cyr, who has retired after 38 years with the group, as chairman of Bell Canada. Robert Gibbons

## Anglo's gold chief



Anglo American Corporation of South Africa, the world's biggest gold producer, has changed the chairman of its troubled gold and uranium division. Bobby Godsell (left),

Anglo's labour relations guru, has replaced Clem Sunter who moves to a new post as chairman of Anglo's corporate affairs division. Godsell, 43, a South African, was appointed chief executive of Anglo's gold and uranium division last July. He was previously the executive director responsible for the human resources division, public policy department and industrial relations. He made his mark as the architect of a tripartite accord with government and trade unions enshrined last year in South Africa's Labour Relations Act.

Godsell has devoted nearly all his career to labour issues, the most important of the difficulties facing South Africa's gold industry. His promotion reflects the political sensitivity

of attempts to improve productivity in Anglo's gold mines. He has built a close working relationship with Tito Mboweni, the minister of labour, since the African National Congress-led government took office in April 1994.

Clem Sunter, 51, who has controlled the gold and uranium division since 1989, is regarded as a patrician manager in the oldest tradition of Anglo-American, who will be better suited to his new role as "ideas man". He will liaise with group companies to "ensure the optimal use of scenario planning in the development of their business plans, and those of the Corporation, for future growth."

Anglo has made a number of other management changes: Leslie Boyd, 59, chairman of Anglo-American Industrial Corporation, succeeds Pat Retief, 63, as chairman of Anglo American Platinum Corporation; James Campbell succeeds David Rankin as chairman of Anglo's administration committee; Tony Redman succeeds Ken Trueman as managing director of Amco. Mark Ashurst

## Air France reshuffle

Air France has moved swiftly to plug the hole left by Rakesh Gangwal's return to the US as chief operating officer of US Air. Gangwal, 42, a close aide of Stephen Wolf who had been advising Air France on its restructuring,

had been drafted in to be Air France's executive vice president for planning and development.

Following Gangwal's departure, Jean-Claude Baumgarten has taken over as executive vice president in charge of corporate international and industry affairs; Jean-Luc Galzi becomes adviser to chief executive Marc Véron; and Bruno Mathieu, vice president scheduling, takes responsibility for continuing and extending the rationalisation work undertaken by Gangwal. Gianni Marostica, who used to work at Air Canada, and American Airlines, has been appointed vice president revenue management and pricing and Marc Véron, Air France's chief executive, takes over corporate marketing and sales. William Hall

## Recall time at Nikko

Reinstating scandal-tainted executives seems to be the trend in Japan. Nikko Securities, a leading brokerage, last week named Takuya Iwasaki, who resigned as president in 1991 following the spate of securities transaction scandals, as chairman.

Iwasaki had been taking a low profile as deputy chairman as the industry was embroiled in scandals involving loss compensation to clients. However, Nikko says the company needed Iwasaki's connections and leadership, amid an increasingly difficult

## culty business environment.

Nikko's move follows last year's decision by Nomura Securities, the industry leader, to appoint as board members Setsuya Tabuchi and Yoshitaka Tabuchi, who were forced to resign from their posts of chairman and president respectively at a similar time as Iwasaki. Emiko Terazono

## Mexican challenge

For brokers whose prime focus was Mexico, 1995 was a very difficult year. So it proved for Interacciones Globales and its Mexican parent, the Interacciones financial group headed by Carlos Hank Rhon, son of a well-known ruling party politician and owner of one of Mexico's finest modern art collections.

After a year of retrenchment, the company is now aiming to diversify into markets in Argentina, Chile, Brazil and Peru and has appointed a Briton, Tony Ewell, to head the effort.

Ewell, 51, formerly with James Capel, Bear Stearns and BZW in London, joined Interacciones in July 1994 as managing director in London. He will now be chief executive officer of the subsidiary, replacing Lee Kim-mell, who has left the company. His manager in London, Jim Clayton, will also be head of operations in New York and London. Stephen Fidler

## ON THE MOVE

■ Rod Chadwick, 50, managing director of the Pacific Industries group, is to succeed Philip Brass as managing director and chief executive of PACIFIC DUNLOP when Brass retires on July 12. Graham Spurling, 58, coo of the company's GNB Technologies subsidiary, adds Ansell International to his responsibilities in the new position of President of Pacific Dunlop Holdings (USA).

■ Four new directors have been named at SAUDI ARAMCO, Saudi Arabia's state-owned oil producer. They are commerce minister Osama bin Jaafar bin Ibrahim Faighi; minister of state Mubassir bin Mohammed al-Ayban; the head of King Fahd University, Abdul-Aziz al-Dekhal; and Aramco's executive vice president for exploration and production, Saddam al-Hussaini.

Three Americans have been reappointed: Harold Haynes, former chairman of Chevron; Rodney Wagner, formerly of Morgan Guaranty Trust; and former Exxon chairman, Clifford Gerwin. The 10-member board reports to Aramco's Supreme Council,

which is headed by King Fahd. It is chaired by Aramco's former chief executive, Ali bin Ibrahim al-Nusaimi.

■ Tarje Mikalsen has resigned as chairman of HAFSLUND NYCOMED, the Norwegian drugs to energy group, and sold a big batch of Hafslund shares, following the failed merger with Iva. Johan Fredrik Odell succeeds him.

■ Patrick Verderio, chief financial officer of Creative Technology, the Singapore-based computer sound card maker, is moving to MAXTOR Corp. as chief operating officer.

■ Michael Whelan has resigned as chairman and managing director of Ireland's ARAN ENERGY, following the company's takeover by Norwegian state oil firm Statoil. Finn Kulas, md of Statoil UK, takes the chair, with Jacob Sanne, general manager of Statoil UK E&P, as Aran's managing director.

■ Ian Dert, national manager systems integration services, rises to group general manager of BHP INFORMATION TECHNOLOGY.

■ Stuart Booth, 45, has been promoted to senior vice president - finance and development at PACIFIC GAS

## ELECTRIC ENTERPRISES

Jack Fusco, 33, becomes executive director - international development, with a remit to manage the evaluation and acquisition of international energy distribution companies, and oversee investments by Enterprises subsidiaries.

■ Carter Beese Jr., vice chairman of Alex Brown International, Grant Gregory, chairman of Gregory & Hoenemeyer, and Thomas Hsieh of the San Francisco board of supervisors, join the board of RENAISSANCE HOTEL GROUP.

■ Yasumi Mizuno, 48, returns to the US from Japan as vice president responsible for sales and marketing co-ordination and communications with Fuji Heavy Industries, parent company of Subaru of America.

■ Peter Buescher joins GUINNESS BREWING WORLDWIDE from R J Reynolds Tobacco, as managing director of the Asia-Pacific division and a member of the executive board.

■ Mathias DeVito, chairman of the Rouse Company and a director of US Air Group, joins the board of ALLIED IRISH

## BANK as a non-executive director.

■ Hajime Sakai rises to president of KYUSHU MATSUYAMA ELECTRIC of Japan, from April 1. He is currently deputy president, in charge of the finished product division and factory automation division.

■ Christian Dube, formerly a partner at Coopers & Lybrand/Laliberte Lantot, joins DOMTAR, the north American forest products group, as vice-president and treasurer.

■ James Frey, 57, chairman of Litton's Itek Optical Systems division, has been given a strategic planning role covering the whole LITTON INDUSTRIES group.

■ Claude Darnon joins the central management of GEC ALSTHOM on April 1 as managing director. He joins Pierre Bilger, president and coo, and James Cronin, managing director. André Navarri is promoted to succeed Darnon as md of the transport division.

■ Ellis Colabraro has resigned as chairman of SPIEL LEASING, the IMI group's loss-making leasing subsidiary.

## AUTOMOTIVE for North America.

■ John Gaulding has been appointed as chief executive of NATIONAL INSURANCE GROUP of the US, a leading provider of information services and specialised insurance to financial institutions. He replaces Mel Croser, a management consultant. Gaulding is the former chief executive of ADP Claims Solutions Group.

■ Hiromi Yokoyama rises from deputy to president of BARCLAYS Trust & Banking Company (Japan) on April 1, replacing Terry Carter who is retiring. Yoichi Kamina, currently executive director, Japan Equity Product at BZW Securities (Japan), becomes managing director of STB. Hideaki Mochimaru, who is to become general manager and head of the domestic sales desk, will take over Kamina's role at BZW Securities (Japan).

■ Ian Haron has resigned as southern Africa managing director of pulp and paper manufacturer SAPPI. Ian Forbes, currently managing director of Sappi Kraft, take over the post.

■ Josep Zaforteza has been appointed executive vice chairman of Fuerzas Electricas de Cataluna (FECSA).

■ Sherif Nada is to succeed Gordon Watson, 64, as president of FIDELITY BROKERAGE GROUP when Watson retires in June. Timothy McKenna, 42, succeeds Nada as president of Fidelity Capital Markets.

■ Reed Eller, 55, has been named general manager for Europe, the Middle East and Africa for MOTOROLA MULTIMEDIA GROUP.

■ Peter Barnett has joined the board of Australia's MAYNE NICKLESS group, where Nobby Clark has retired. ■ Hubert Ng Ching-wah, managing director of Hongkong Telecom, has been appointed chief executive of SAKTONE MOBILE COMMUNICATIONS, from April 1.

## International appointments

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## Number 1 in the Eurolira Market in 1995

**ABBEY NATIONAL**  
Abbey National  
Lire 375 billion  
11% Callable Notes  
due 1998

**ABBEY NATIONAL**  
Abbey National  
Lire 200 billion  
11% Notes  
due 1997

**Republika Austria**  
Republika Austria  
Lire 200 billion  
Zero Coupon Notes  
due 1998

**Vereinsbank**  
Bayerische Vereinsbank  
Lire 200 billion  
12% Notes  
due 1997

**Council of Europe**  
Council of Europe  
Lire 150 billion  
Zero Coupon Notes  
due 1997

**Crédit Local de France**  
Crédit Local de France  
Lire 300 billion  
Zero Coupon Notes  
due 1997

**European Investment Bank**  
European Investment Bank  
Lire 300 billion  
10.45% Notes  
due 2000

**European Investment Bank**  
European Investment Bank  
Lire 1,000 billion  
Floating Rate Notes  
due 2000

**General Electric Capital Corporation**  
General Electric Capital Corporation  
Lire 100 billion  
10.375% Notes  
due 2000

**Helaba**  
Helaba Frankfurt  
Lire 300 billion  
11% Notes  
due 1998

**PEPSICO**  
Pepsico  
Lire 150 billion  
11.375% Notes  
due 1998

**Rabobank Nederland**  
Rabobank Nederland  
Lire 150 billion  
11% Notes  
due 1998

**Rabobank Nederland**  
Rabobank Nederland  
Lire 250 billion  
11.05% Notes  
due 1997

**World Bank**  
World Bank  
Lire 200 billion  
Zero Coupon Notes  
due 1996

**World Bank**  
World Bank  
Lire 150 billion  
10.60% Callable Notes  
due 1998

**World Bank**  
World Bank  
Lire 250 billion  
10.60% Callable Notes  
due 1997

In 1995, for the second consecutive year, Credito Italiano ranked as the **Leading Bookrunner** in the Eurolira Bond Market having Lead Managed 24 bond issues totalling Lire 2,800 billion with a market share of 14.2%

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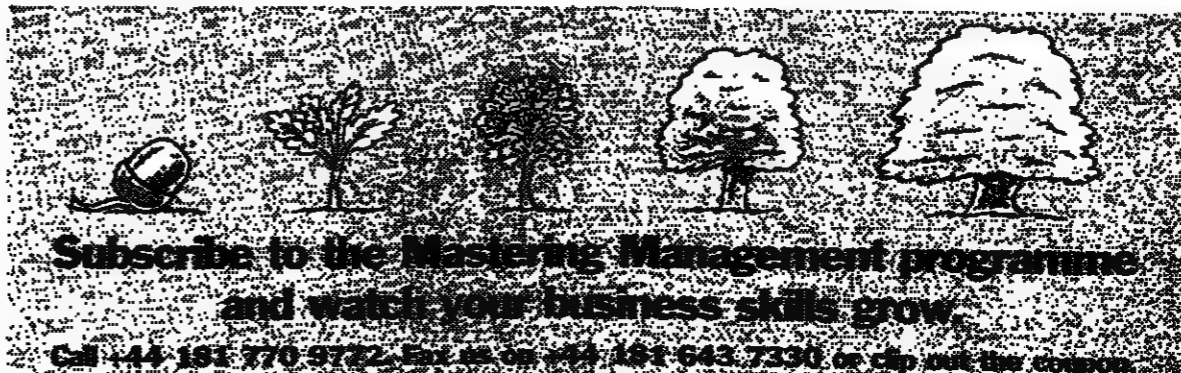
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## COMMODITIES AND AGRICULTURE

## Coffee prices set for sharp rise as production deficit cuts stocks

By Deborah Hargreaves

World coffee prices could move sharply upwards in the next three months as stocks held by consumers remain at very low levels, according to GNI, the London brokers.

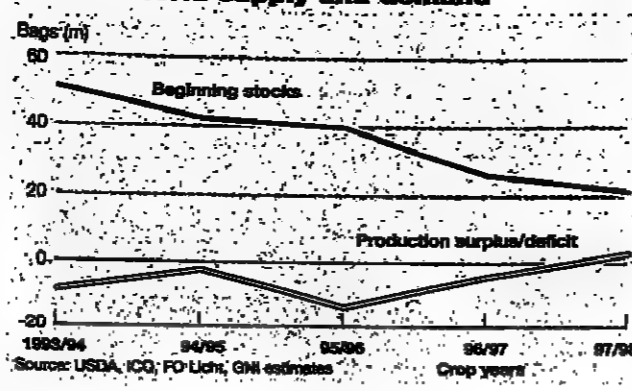
Mr Lawrence Eagles, GNI commodities analyst, said he believed green coffee prices could increase by 40 cents a lb to around \$1.50 a lb by June. "That is currently being thwarted by very high shipments from Mexico, which have given the American roasters a bit of a breathing space," he said.

Mexican coffee exports increased to 2.2m bags in February compared with 1.5m bags in the same period last year, as producers took advantage of tight world supplies to increase sales.

World coffee prices have been extremely volatile in the first few months of the year, with producers suggesting a conspiracy among consuming companies to push prices down.

Mr Eagles said it was wrong to blame speculators for much of the exaggerated move-

Coffee: world supply and demand



Source: USDA, ICO, FO Licht, GNI estimates

ment in the price of coffee. "Volatility has been extreme, and the recent slump and recovery is reminiscent of a speculative overshoot. However, to blame recent trading patterns on speculators is a convenient excuse," GNI said in its latest monthly report.

Mr Eagles attributed much of the current market volatility to the fact that roasters were buying on a hand-to-mouth basis while consumer stocks were low and processed stocks at a bare minimum. "The world market has not seen the

full extent of the roasters' demand," he said.

The situation in the coffee market is a "waiting game", with roasting companies awaiting shipments of new-crop coffee from Brazil. The shipments usually start to arrive in August. "Producers are waiting to see whether roasters have high enough stocks to hold out until then," Mr Eagles said.

GNI forecast this year's production deficit in the coffee market to reach around 14m bags - the highest for five

years - if consumption continued to rise.

The shortfall should start to decrease in the second half of the year as the latest Brazilian shipments reach the market. This year's Brazilian crop is expected to be reasonable, at 23m to 25m bags.

GNI has forecast a deficit for the 1996-1997 crop year of 4.5m bags, which it expects to turn into a surplus of 2.8m bags in 1997-1998.

Consumption fell by 4.5 per cent when the coffee market soared in 1994-1995 after frosts damaged the Brazilian crop. However Mr Eagles predicted that consumer demand would increase this year and rise steadily to more than 100m bags by 1998.

"I am optimistic that consumption will continue to rise but that's based on the assumption that retail prices won't rise significantly if green coffee is up," said Mr Eagles.

An official from the Association of Coffee Producing Countries indicated that it could raise its export ceiling by 8 per cent next year to 65m bags.

## Consumers delay rubber agreement

By Frances Williams, in Geneva

Rubber producing and consuming states are to meet in Geneva later this month in an attempt to save their new international accord from foundering because of a lack of support from consumers.

The March 28 meeting is expected to agree a six-month extension to the original deadline of December 28 1995 for countries to sign the third International Natural Rubber Agreement (INRA).

Adopted in February 1995, the pact has to be signed and ratified by states representing at least 75 per cent of rubber production and consumption before it can come into effect in January 1997.

Producers have already met the first requirement. Thailand, Indonesia, Malaysia and Sri Lanka, the four biggest producers which account for 94 per cent of output, signed the accord shortly before the deadline.

But among consumers only the European Union and Japan, representing 48 per cent of demand, have signed. The US, which accounts for 29

per cent of consumption, missed the December deadline because of the government shutdown caused by its budget crisis.

China, the world's second biggest rubber importer, and several African producers also failed to meet the deadline for the accord, which has been drawn up to replace a similar 1987 agreement that expired last December.

The Geneva meeting was called by the United Nations Conference on Trade and Development at the request of Mr Pong Sone, executive director of the International Natural Rubber Organisation based in Kuala Lumpur.

Several governments are said to have indicated their willingness to sign the 1995 agreement if the deadline were extended. Washington, a member of the 1987 pact, is expected to attend the meeting.

The INRA is the sole remaining international commodity accord which operates a buffer stock facility to stabilise prices. The 1995 agreement, if ratified, will run for four years from 1997 with the possibility of an extension for two more years.

## Albania attracts foreign investors to revive mines

By Marianne Sullivan, in Tirana

Albania, once the world's third-largest chromium exporter, is trying to revive its mining industry, which collapsed after the country's transition to democracy in 1991.

The small, mineral-rich country produced 365,000 tons of chromium in 1995, down from 1.2m tons in 1988. Copper production has also declined following the closure of inefficient mines and an end to the use of forced labour.

New technology and markets are needed to pump fresh energy into the mining industry, according to Mr Abdyl Xhaja, Albania's minister of mineral and energy resources.

Although Mr Xhaja agrees that production will never match what it was under communism, he says the country is trying to reactivate efficient mines through a combination of European aid and the encouragement of foreign investment.

Albania's chrome exports have more than doubled since 1992 from \$15m to \$36m. Copper exports have risen by more than 400 per cent since 1992, up from \$2m to \$8.8m in 1995. Mr Xhaja hopes chrome exports will double again in the near future.

He points to the country's new mining and foreign investment laws and its privatisation programme as incentives for foreign companies to explore Albania's mineral resources.

One result of efforts to restart the industry is the launch of a joint mining venture with Calgary-based mining exploration company Nebex Resources, which will look for gold.

Drilling began in January in the northern district of Mirdita, a copper-producing region where GeoAlba, Albania's geo-

logical research organisation, has estimated that there are gold deposits of up to 13.96 grams per ton.

Mr Michael Trapnell, manager of the Nebex operation in Tirana, says the company's analysis, whose results will be announced shortly, has shown that the gold content may be slightly higher than GeoAlba's estimates.

Nebex hopes that modern technology will enable it to separate gold from copper - something which the Albanians were unable to achieve.

However Mr Trapnell says that if the junior company plans to move into the exploitation phase of mining, it will probably need the help of a larger company. Nebex is also carrying out follow-up drilling at the Yellowknife gold camp in Canada following an earlier gold discovery.

Nebex has an initial planned investment of \$2.25m, with an option to earn 50 per cent on exploitation, with GeoAlba taking the remaining 20 per cent. In addition to the two concessions in Mirdita, the company has concessions in the northern Kukes district and Radomir, both of which contain base metal deposits. The total area of the four concessions is 1,050sq km.

Meanwhile villagers in the northern village of Gurth, where Nebex has set up shop, are hopeful that the venture will bring work. Unemployment, they say, has reached 60 per cent in an area where most of the population had worked in mining.

Nebex has already employed at least 30 locals, and if exploration goes ahead it plans to employ more. "There is little else for us to do here," locals say. "Many of the young people have left for the cities or gone to Greece. Now at least a few of them have been able to come back."

## MARKET REPORT Gold and wheat hit by investment fund selling

Gold, wheat, corn and soyabean prices tumbled yesterday as the speculative US investment funds that rely on technical indicators received "sell" signals from their charts and computer programmes.

In London gold's price was "fixed" at US\$389.70 a troy ounce, its lowest since January 4, and this triggered follow-up selling in New York. Traders said there was no fundamental reason for yesterday's fall but the technical indicators suggested gold's price would weaken further.

Prices of agricultural products fell at the Chicago Board of Trade as funds piled out of futures contracts.

Wheat prices fell in spite of forecasts of dry weather in the Great Plains area, the main US winter wheat growing region. By mid session the March futures contract at the CBOT had slipped by 8 1/2 cents to \$5.09 a bushel.

Speculative and commission house selling pushed London cocoa prices to a 7-month low of \$299 a tonne. By the close they had recovered to \$299.

## Trans Hex aims to raise diamond output

By Kenneth Gooding, Mining Correspondent

Trans Hex, South Africa's second-biggest diamond producer, aims to quadruple production in the next five years.

This would take its output of 215,000 carats of rough diamonds, worth US\$57m, to 860,000 carats, worth \$250m.

To achieve this Trans Hex is expanding aggressively outside its home base. During the next 12 to 15 months the company will spend about \$7m on joint venture exploration projects, mainly in Zimbabwe, Namibia and the Central African Republic. It has grouped its exploration

properties outside South Africa into a new subsidiary, Trans Hex International, which has gained a stock exchange quotation in Toronto by exchanging shares with a small company there.

Mr Niel Hoogenhout, group managing director, said: "We need a vehicle for raising funds outside South Africa because we can't wait for [South Africa's] exchange controls to be removed. And Canada is the right place for a diamond exploration company to be quoted."

He suggested that within a year THH should have a feasibility study on at least one of its properties. Then it would

raise between C\$20m and C\$30m for further development.

Trans Hex has been exploring in the Central African Republic for nearly three years and recently hired a large Russian cargo aircraft to carry a test diamond recovery plant and other mechanical equipment, weighing 120 tonnes, to its project there.

Mr Hoogenhout said Trans Hex was interested only in alluvial (or surface) diamond mining and was probably the foremost company of its type in the world. Alluvial diamonds tend to be high value and Trans Hex receives an average of US\$600 a carat for

the stones it mines at its Baken mine in South Africa.

This compares with an average of \$150 a carat for the rest of the South African industry and \$100 a carat for the global industry. Trans Hex sells its diamonds via tender outside the producers' cartel organised by De Beers. Last week a 34 carat rough diamond found at Baken was sold for \$802,000, or \$23,500 a carat.

Trans Hex is quoted on the Johannesburg stock exchange and is 50 per cent owned by Rembrandt, the South African conglomerate. Mr Hoogenhout said: "Rembrandt is giving us every support. Our growth will keep Rembrandt happy."

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Arranged Metal Trading)

## ALUMINIUM, 99.7 PURITY (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## ALUMINIUM ALLOY (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## LEAD (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## NICKEL (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## ZINC, special high grade (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## TIN (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## COPPER, special high grade (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## LIME, ALUMINUM (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## LIME, ALUMINUM (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

## LIME, ALUMINUM (per tonne)

	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

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	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
AM Official	1957-08	1957-08			
Kerb close	1957-08	1957-08			
Open int.	1957-08	1957-08			
Total daily turnover	1957-08	1957-08			

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	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
High/Low	1957-08	1957-08			
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	Set	Day's	High	Low	Open
Close	1957-08	1957-08			
Previous	1957-08	1957-08			
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Total daily turnover	1957-08	1957-08			

## LIME, ALUMINUM (per tonne)

## INTERNATIONAL CAPITAL MARKETS

## Spanish prices show sharp fall

By Richard Lapper in London and Lisa Brannen in New York

Spanish bond prices fell sharply yesterday, with investors disappointed by the narrowness of the election victory achieved by Mr José María Aznar and his centre-right Popular Party. The sell-off in Spain contrasted with a recovery in other markets, following a bounce in the US market on Friday and renewed hopes of interest rate cuts in Germany, France and the UK.

"The weakness in these markets has been overdone. Investors realise that the economic numbers argue for lower interest rates," said Mr Stuart Thomson, chief international economist at Nikko Europe. "We are turning bullish on these markets and are looking for a return to the highs in the next couple of weeks."

## GOVERNMENT BONDS

Spanish bonds opened lower and lost further ground in early trading. On Mef, the March 10-year futures contract sank to a low of 93.76 in mid-morning before recovering later in the day. It settled at 94.52, down 1.78, in the cash market the 10-year yield spread over Germany widened by 32 basis points to close at 363 points, sharply reversing the trend of the past month.

The narrowness of Mr Aznar's electoral majority - his party will control only 156 of the 350 seats in the Madrid parliament - and the fact that the PP will have to rely on support from minority parties disconcerted investors, triggering a rapid sell-off by both foreign and domestic investors.

But analysts are optimistic that the worst may already be over. Mr Henrik Lumboldt, chief economist at Bank of America in Madrid, said the markets had been discounting a much clearer triumph for the PP and the reaction had been "totally understandable".

Pointing to positive economic fundamentals and the likely continuity of government policy, he said: "We have seen the whole or at least 80 per cent of the sell-off. Even if new elections were held, the spread would be unlikely to widen beyond 400 basis points, he added.

Indeed, there are some signs that investors are already spotting good buying opportunities. "We think this is a good opportunity to switch," said Mr Paul Meader of Matheson Investment Management.

Many investors switched out of Spain into Italy, helping the lira to reach a 13-month high against the D-Mark. Hopes of good news on the inflation front - February CPI data are due tomorrow - also provided support.

On Liffe, the March futures contract edged up, settling up more than a point at 111.48 before climbing even higher in APT trading. In the cash market, the 10-year yield spread over Germany narrowed by 9 basis points to 410 points.

Positive fundamentals provided firm support for the German market. Hopes of interest rate cuts helped the shorter end of the curve, with the 1 basis point fall in yields of benchmark 10-year bonds contrasting with a 9 basis point fall in the two-year area.

The March 10-year settled at 97.97 on Liffe, up 0.16, and rose further in APT trading. The markets are focusing on an expected rise in pan-German unemployment when figures are announced tomorrow. Nikko Europe's Mr Thomson said the figures should trigger a cut in the discount rate, possibly at the end of the month.

UK government bonds made impressive gains, shrugging off stronger than expected M0 money supply figures. Again, expectations of interest rate cuts were responsible, with a 1/4 per cent reduction anticipated later this week.



In the cash market, yields on 10-year gilts fell by 5 basis points, while yields on the 7% per cent 1996 dropped by 11 basis points. The 10-year yield spread over bonds narrowed by 5 basis points to 160 points. On Liffe, the June long gilt gained 3/4 point to 107.18, while June short sterling closed at 94.19, up 0.08.

The Bank of France chose to leave its intervention rate unchanged, disappointing some traders. Even so there are expectations of a cut on Thursday. OATs made progress, with yields falling 1/4 basis point to 6.55 per cent. On Matif, March 10-year futures settled at 121.88, up 0.18. March Fibor closed at 96.81, down 0.01.

US Treasuries were mixed in thin trading early yesterday as longer-term bonds gave back some of Friday's strong gains while shorter-term issues managed to add to those gains.

Near-midday, the benchmark 30-year Treasury had given up 1/4 point of the more than 1 1/2 point advance made in late Friday trading, bringing the price to 94 1/4, with the yield at 6.366 per cent. At the short end of the maturity spectrum, the two-year note was up 1/4 at 96 1/4 to yield 5.236 per cent.

There was little reaction to figures released on personal income expenditure for December and January, in part because they were so old. Opinion was divided on the significance of the personal income expenditure figure, which fell by 0.5 per cent in January, its biggest drop since August 1992.

## European banks climb Brady bond league table

By Richard Lapper

European banks have increased their share of the market in Brady bonds and other distressed sovereign debt.

A survey by Emerging Markets Investor, a trade publication, shows that J.P. Morgan of the US is still the biggest player in the market, followed by three other US banks. However, a number of European banks have gained ground. ING Barings increased its turnover by 22.5 per cent to \$11.3bn in 1995; Banque Indosuez of France showed an increase of 30 per cent to \$800m; SBC Warburg rose by 15.5 per cent to \$450m; and ABN-Amro of the Dutch bank, expanded its business by 48.3 per cent to \$430m.

Overall, volumes traded by the top 20 houses fell by about 20 per cent in 1995, largely as a result of the biggest upheaval in the market since the early 1990s. The Mexican devaluation in December 1994 triggered a sell-off of Brady bonds issued by governments across the emerging markets. Prices have only recently recovered and the survey estimates that across the market, traders' profits fell by between 60 per cent and 70 per cent.

J.P. Morgan, which has occupied the top position in the league table for the last three years, saw turnover in the sector decline by 7.5 per cent to \$395bn.

Chase Manhattan and Chemical Bank, which are currently combining their trading books, saw falls of 35.6 per cent to \$181bn and 42.4 per cent to \$109.5bn, respectively. Salomon Brothers also fell by 13.4 per cent to \$163.6bn, while Deutsche Morgan Grenfell, the biggest European player, saw a 13.5 per cent fall in volume to \$133.1bn.

## Sweden taps dollar sector for \$500m over five years

By Corinna Middelmann

A more positive tone in the government bond markets brought borrowers and investors out of the woodwork yesterday, with several large euro-bond offerings launched.

The Kingdom of Sweden became the second sovereign this year to tap the US dollar sector, bringing \$500m of five-year bonds yielding 20 basis points over the new five-year Treasury note. Lead manager Paribas Capital Markets said overnight re-marketing built a strong book of Asian orders, matched by more demand from European institutions.

However, other participants said the deal was aggressively priced and started slowly, especially since the market is still digesting recent five-year deals and an awaiting a large issue by Südwelt. The German regional bank plans to issue \$500m to \$750m of five-year bonds through a negotiated offering targeted at institutional investors.

This is a clear departure from its previous strategy of launching smaller, tightly priced, arbitrage-driven deals targeted at retail investors, who are relatively insensitive to yield spreads.

The issue is expected to be launched as early as Wednesday, with price talk focusing on a spread of 17 to 18 basis points over Treasuries; it is being arranged by Morgan Stanley and SBC Warburg. Südwelt's triple-A rating and implicit guarantee by the state of Baden-Württemberg "makes Sweden's Aa3/AA+ rated bonds look expensive at 20 over", one dealer said. But another noted that Germany's regional banks had been heavy issuers in the eurobond market in recent weeks and "the universe of investors for German bank paper is smaller than for sovereign issues like Sweden's".

The Republic of Italy was the other sovereign to tap the market yesterday, with Y500bn of 3.8 per cent 12-year bonds. Lead manager Daiwa Europe said the bulk was placed with long-term investors in Japan.

## INTERNATIONAL BONDS

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## WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS									
Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago	Year ago	52 wk high	52 wk low
Australia	10.000	02/08	110.9180	+0.00	8.37	8.72	8.13		
Austria	8.125	02/08	97.6500	+0.00	6.45	6.61	6.11		
Belgium	10.000	12/05	108.6800	+0.00	6.73	6.93	6.27		
Canada	8.000	12/05	108.6800	+0.00	7.37	7.58	7.07		
Denmark	8.000	02/08	103.6500	+0.00	7.47	7.69	6.93		
France	8.000	10/02	105.8750	+0.00	5.92	5.79	5.37		
Germany Bund	8.000	02/08	105.0800	+0.00	5.43	5.74	5.28		
Germany Bund	8.000	01/08	97.9500	+0.00	6.28	6.44	5.78		
Germany Bund	8.000	06/08	101.8000	+0.00	7.73	7.90	7.28		
Italy	10.000	02/08	101.7200	+0.00	10.11	10.47	9.87		
Japan	10.000	08/08	118.5410	+0.00	1.97	1.78	1.77		
Netherlands	8.000	01/08	98.0400	+0.00	8.27	8.43	8.00		
Portugal	11.875	02/08	102.4300	+0.00	5.50	5.20			
Spain	10.000	01/08	101.3000	+0.00	9.81	9.84	9.34		
Sweden	8.000	02/08	102.9500	+0.00	6.84	6.98	6.28		
UK Gilt	7.500	12/05	104.0000	+0.00	6.96	7.24	6.54		
US Treasury	9.000	10/08	108.1900	+0.00	7.91	8.01	7.47		
US Treasury	8.625	02/08	97.1700	+0.00	5.96	6.04	5.81		
US Treasury	8.000	02/08	95.0800	+0.00	9.37	9.48	8.04		
ECU (French Govt)	7.500	04/05	103.1500	+0.00	7.02	7.25	6.87		

London closing. New York midday. Values local market standard. 1 Gross (including withholding tax at 12.5 per cent payable by non-residents). Source: M&B International

## US INTEREST RATES

Treasury Bills and Bond Yields				
Rate	One month	Three months	Six months	One year
Prime rate	8 1/2	8 1/2	8 1/2	8 1/2
Banker's rate	8 1/2	8 1/2	8 1/2	8 1/2
Federal funds rate	5 1/4	5 1/4	5 1/4	5 1/4
Federal reserve discount rate	5 1/4	5 1/4	5 1/4	5 1/4

## BOND FUTURES AND OPTIONS

FRANCE									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	121.88	+0.16	121.94	121.72	64,832	133,366			
Jun	121.82	+0.16	121.82	121.78	12,920	27,534			
Sep	120.72	+0.16	120.72	120.62	180	2,365			

LONG TERM FRENCH BOND OPTIONS (MATRIF)									
Strike	Call	Put	Call	Put	Call	Put	Call	Put	Call
119	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
120	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
121	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
122	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
123	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

GERMANY									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	96.08	+0.16	96.17	96.06	12,152	89,403			
Jun	97.26	+0.14	97.34	97.03	51,552	175,937			

UK GILTS PRICES									
Notes	Yield	Price	Yield	Price	Yield	Price	Yield	Price	Yield
Short (3m)	5.00	101.12	5.00	101.12	5.00	101.12	5.00	101.12	5.00
3m	5.00	101.12	5.00	101.12	5.00	101.12	5.00	101.12	5.00
6m	5.00	101.12	5.00	101.12	5.00	101.12	5.00	101.12	5.00
9m	5.00	101.12	5.00	101.12	5.00	101.12	5.00	101.12	5.00
12m	5.00	101.12	5.00	101.12	5.00	101.12	5.00	101.12	5.00

BOND FUTURES OPTIONS (LUFFE) DM250,000 points of 100%									
Strike	Call	Put	Call	Put	Call	Put	Call	Put	Call
107	1.12	1.43	2.02	2.50	0.48	1.05	1.28	3.04	
108	0.41	1.10	1.30	1.36	1.03	1.36	1.58	3.45	
109	0.19	0.48	1.04	1.31	1.45	2.10	2.30	3.45	

ITALY									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	110.87	+0.16	110.87	110.77	37,427	227,709			
Jun	110.85	+0.16	110.85	110.75	29,999	91,020			

ITALY GOVT. BOND (BTF) FUTURES OPTIONS (LUFFE) DM250,000 points of 100%									
Strike	Call	Put	Call	Put	Call	Put	Call	Put	Call
107	1.12	1.43	2.02	2.50	0.48	1.05	1.28	3.04	
108	0.41	1.10	1.30	1.36	1.03	1.36	1.58	3.45	
109	0.19	0.48	1.04	1.31	1.45	2.10	2.30	3.45	

SPAIN									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	94.80	+0.16	94.80	94.70	63,488	48,579			
Jun	94.80	+0.16	94.80	94.70	63,488	48,579			

NOTIONAL SPANISH BOND FUTURES (MEF)									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	94.80	+0.16	94.80	94.70	63,488	48,579			
Jun	94.80	+0.16	94.80	94.70	63,488	48,579			

NOTIONAL UK GILT FUTURES (LUFFE) £50,000 32nds of 100%									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	108.00	+0.16	108.16	107.88	22,987	61,446			
Jun	107.13	+0.16	107.13	107.04	20,719	51,989			

LONG GILT FUTURES OPTIONS (LUFFE) £50,000 32nds of 100%									
Strike	Call	Put	Call	Put	Call	Put	Call	Put	Call
107	1.12	1.43	2.02	2.50	0.48	1.05	1.28	3.04	
108	0.41	1.10	1.30	1.36	1.03	1.36	1.58	3.45	
109	0.19	0.48	1.04	1.31	1.45	2.10	2.30	3.45	

EURO									
Open	Settle	Change	High	Low	Est. vol.	Open int.	Open int.	Open int.	Open int.
Mar	90.28	+0.16	90.42	90.22	7,854	7,854			
Jun	88.76	+0.16	88.86	88.76	861	1,080			

UK	94.00	94.20	-1.41	94.41	94.75	1,108	6,323
NOTIONAL UK GILT FUTURES (LFFE)* £50,000 32nds of 100%							

# WORLD MOTOR INDUSTRY

## Differences by region

Globalisation, customer relations and the environment are all challenges to the carmakers, writes Haig Simonian

The world's carmakers are learning to live with feast or famine. In Europe, the US and Japan, they face mature markets and replacement-only demand against the background of higher costs and greater competition.

Elsewhere, however, car companies are predicting a bonanza. Strong economic growth and greater confidence in eastern Europe and south America have boosted demand and prompted new plants. Buoyant demand has also triggered upward revisions in manufacturers' forecasts for south east Asia. And the world's leading carmakers continue their regular pilgrimages to Beijing as they try to persuade the authorities to bless their plans for new factories in the world's biggest untapped market.

Such wide regional differences have set the scene for the car business into the next century. Only by learning to adapt quickly and gaining the flexibility to add or cut capacity virtually at will can the industry thrive in the new circumstances.

How much carmakers suffer on the way depends on their ability to react to four themes. **Globalisation.** Rising demand in new locations is forcing carmakers to expand geographically. Sometimes, appointing a local agent is enough. More often, the creation of an independent import subsidiary and a dealer network - supported, if necessary, by a local currency finance operation - is required. And in certain cases, such as India and China, government policy and strong forecasts for demand are prompting manufacturers to form joint ventures to build cars on the spot. The creation of new capacity

in hitherto fringe markets has coincided with a re-examination of the way carmakers are organised. The internal upheavals prompted by Ford 2000 are still under way. Yet in spite of criticisms that the venture is proving more glacial in pace and more expensive than planned, Ford 2000 has demonstrated one manufacturer's recognition of the fact that its previous, regionally-based, structure was inadequate to cope with building cars globally.

The harshest testing ground for the new realities of the car business is Japan. A stagnant economy and currency turmoil have forced local manufacturers to shift production to cheaper locations abroad. Honda last year became the first producer to build more cars outside Japan than at home. Falling an unusual upsurge in local demand or fall in the year, the others will inevitably follow.

European and US car companies are watching Japan with concern. Most realise they will also have to rationalise their domestic manufacturing and dealer bases as they redistribute resources to become more global.

**Increased competition.** The changes in world car demand are taking place against the background of rising competition in mature markets. Newcomers, led by the South Koreans, are entering the business. Malaysia and Indonesia want to develop indigenous car industries, while the Chinese government has made clear any new joint ventures will be expected to export as well as meet domestic consumption. In India, meanwhile, the surge in joint venture car projects has triggered speculation about where all the new vehicles will go.



Toyota Corolla: Japan is the harshest testing ground for the new realities of the car business

Western Europe will be the focal point for the competition between established and new carmakers. The market is big and relatively open - in the sense that it is not dominated by a single company, or even a group of carmakers, such as in the US. And in spite of the European Union's "gentleman's agreement" to limit Japanese imports, some markets, such as the Benelux countries and Austria, are highly receptive to non-European brands.

The threat of lower-cost competition from abroad has forced Europe's carmakers to slash their manufacturing costs. Much of the fat has now been removed: productivity has risen through greater automation, better organisation of the factory floor and new relationships with suppliers.

European carmakers are now shifting their attention to marketing and product development. To maintain consumer loyalty, model development

and replacement times are being slashed. And as the market becomes more crowded, carmakers are having to spend more on advertising and marketing. The emphasis on styling, with carmakers using design increasingly to emphasise brand identities and differentiation from the pack.

But such developments have pushed up marketing costs just as spending on manufacturing is being tamed. The need to stick within strict budgets for new car programmes has brought a long-overdue reassessment of the number of platforms manufacturers need for a full model range.

Conveniently, this has coincided with the introduction of more sophisticated manufacturing technologies capable of building several models from one platform - often on the same production line. The need for savings has led to drastic cutbacks in the number of platforms being produced.

On the other hand, however, carmakers have realised they need a fuller portfolio of models to meet the rising demands of consumers who are growing more fickle. The segmentation of the car market in Europe has not yet reached the proportions of Japan, or even the US, where demand has moved away from saloons and hatchbacks to niche models such as sports utilities, multipurpose



Ford Taurus: the new model. The producer is coming to terms with the need to build cars globally

vehicles and convertibles.

But it has upped the competitive stakes. Carmakers lacking the volume to fund expensive new product development programmes are under the heaviest pressure. Some have responded by burying their rivalries and creating joint ventures to build niche vehicles.

The new circumstances are reshaping relationships between carmakers and suppliers. Globalisation and the pressure on costs has led car companies to depend on a much smaller number of suppliers for a greater volume of their business.

For the successful supplier, that opens the door to bumper contracts over extended periods. However, the new relationship also carries greater risks. Suppliers must be prepared to build plants wherever their clients require as the industry expands. Component companies are also having to accept new responsibilities for research and development as carmakers try to pass on more of the cost burden. And suppliers are increasingly being called upon to come up with entire sub-assemblies rather than individual parts.

The greater interdependence between carmakers and suppliers has risks, as well as benefits, for both sides. Contracts may be bigger, but they entail greater commitments over longer periods. Neither side can walk away at will.

Environmental legislators are playing a bigger role than ever in the motor industry.

Concern about exhaust emissions could lead to new laws radically altering demand for conventional vehicles. The Californian air standards authorities appear to have stepped back from the most immediate of their planned quotas on "zero emission vehicles", but the threat of mandatory sales levels remains.

In Europe, Germany is pushing through tough environmental rules. New regulations, for example, now ban the use of cars in city centres when ozone levels exceed predetermined levels.

Germany is also at the forefront of the race to improve fuel economy. A car capable of travelling 100 kms on just 3 litres of fuel is still on the drawing boards. But it is Germany's carmakers which are most likely to make the breakthrough because of the environmental pressures on them.

One day, such legislative pressure may be judged to have given the industry the shove it needed to make decisive technological advances. For the moment, however, the requirements just add to the challenges facing carmakers, with little sign of big commercial spinoffs in the pipeline.

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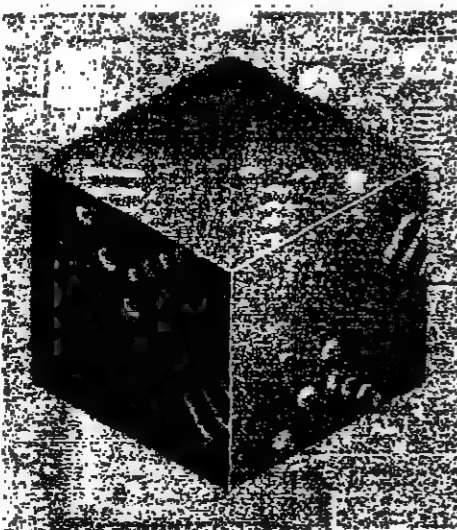
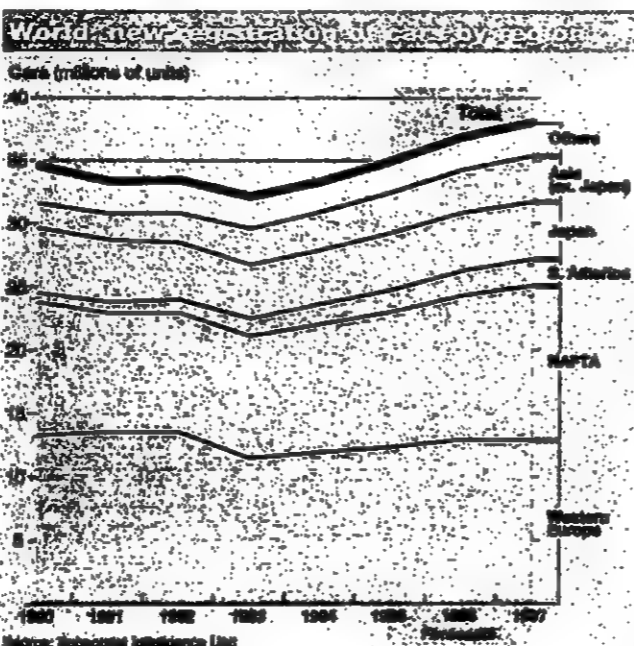
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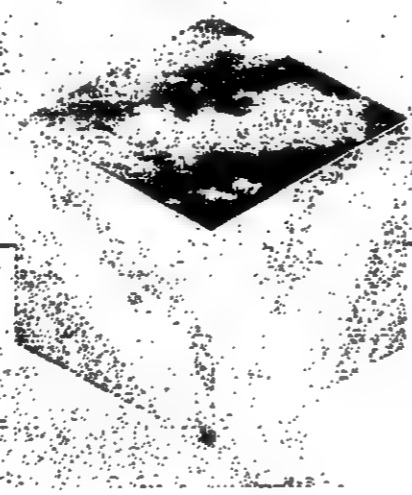
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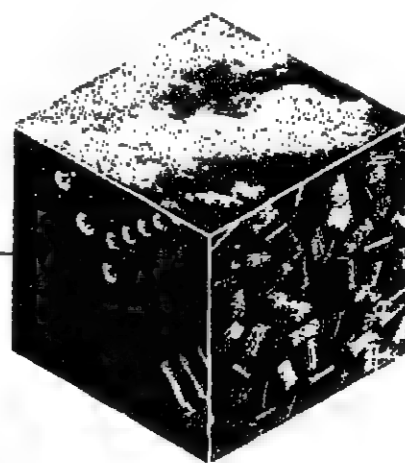
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## II WORLD MOTOR INDUSTRY

■ Design: by Haig Simonian

## Now more than doodling

Fears that rules on safety and the environment will limit creativity have been exaggerated

The days when Henry Ford could sketch a new model on the back of a cigarette packet and send it to his engineers to turn into a car have long gone. So has the era of Mr Robert McNamara, a later chairman of Ford, who reportedly commissioned a model on the basis of a few key numbers, such as length, width, height, interior space and weight, without any reference to what it might look like.

Car design has become a serious business. Styling studios are crammed with number-crunching supercomputers and high-powered imaging software. Designers can "draw" cars electronically, fill them out in three dimensions, swivel them against a realistic background and even simulate the effect of light and shade on their curved surfaces and glass.

Yet in spite of such sophistication, many car designers fear their talents may be marginalised. A raft of new legislation has constrained the stylist's creativity by setting increasingly restrictive criteria for crash resistance and fuel economy. Manufacturers, meanwhile, have posed their own limitations by trying to maximise commercially-important factors such as interior space.

"We are all playing on a limited field. The rules impose increasing constraints, so we must be judged on ever smaller differences," says Mr Giorgetto Giugiaro, one of Europe's most prolific car designers.

The list of factors restricting design has grown steadily since the 1960s. Safety heads the agenda. New rules in Europe, the US and Japan govern a car's resistance to crashes from the front, side and rear.

And, although regulations on safety and other factors are welcomed, the risk is that, "they will all demotivate the designer," says Mr Bruno

Sacco, the design chief at Mercedes-Benz.

The need for a rigid safety cell to protect passengers has influenced internal design, while regulations on protecting pedestrians in accidents have affected the shape of bumpers and bonnets. International rules even dictate how high the bumpers should be off the ground.

Environmental regulations have been as restrictive. Rules to boost fuel economy have forced designers to devise cars with lower drag resistance to cut through the air more efficiently.

The attempts to reduce drag coefficients are most visible in the steep rake of windshields and bonnets of many of today's vehicles. The angle at which the bonnet merges into the windscreen is now so small as to be barely perceptible. The need for more slippery shapes has also affected back and side styling to ensure a clean airflow around the vehicle, and prompted the use of flush-fitting glass.

Commercial considerations have put a premium on maximising interior space within the smallest exterior dimensions. The need to come up with a commercially-acceptable package is particularly important in a small car, where space is by its nature limited.

But often, it has also restricted a designer's ability to be different. Maximising interior space limits, for example, a designer's liberty to define a car's wheelbase. The need to accommodate four adults comfortably affects the height of new cars and the rake of their front and back windows.

The increasing list of limitations has led observers to predict that cars will inevitably look more alike. Although there will always be some room to tinker, the basic shape and size of cars will grow become more similar.

Most designers broadly agree that cars could become more homogeneous. But many add that the increasing segmentation of the car market could provide a bonus to their talents.

In Japan, "niche" cars such as four-wheel drive sports-utilities, boxy multi-purpose

vehicles and sleek convertibles have gained popularity at the expense of conventional saloons. The trend is also catching on in the US and could soon hit Europe.

Greater specialisation in vehicle types creates, rather than removes, opportunities, say many designers. "Every time there's a constraint, it's an opportunity to look at a problem in a different way," says Mr Art Blakeslee, the head of design at Citroën.

Many of the "niche" models unveiled recently have shown a marked flair for design. Mercedes-Benz's concept study for an All Activity Vehicle (AAV) displayed at the Detroit Motor Show in January won plaudits from the public. The study will be closely reflected in the final AAV to be produced at the

**Manufacturers have given their designers even more freedom when it comes to styling the convertibles**

company's new US factory.

Manufacturers have given their designers even more freedom when it comes to styling the crop of lifestyle-oriented convertibles now appearing. Fiat's curvaceous Barchetta is full of design echoes harking back to the company's sporting traditions; Rover's MGF is an extremely well-packaged mid-engined sports car.

Some of the most striking convertibles are coming out of Germany. Mercedes-Benz and BMW have attractive and relatively low priced models on the way. And Audi has given design pride of place to its audacious new TT coupé and convertible to go into production in 1999.

Even some of the latest multi-purpose vehicles have shown a marked design flair, in spite of their inherent boxiness. Renault, which devised the original MPV and set new design standards with the innovative Twingo compact car, is about to create a market for mid-

sized "people carriers" with a variation of its Mégane saloon. Design innovations have even been making themselves felt among the ranks of the workaday saloons and hatchbacks which form the motor industry's bread and butter. Chrysler, the smallest of the "big three" US car companies, has made a name for itself with innovatively-styled vehicles for both the niche and mass markets under its design chief Mr Tom Gale.

Manufacturers have responded to criticism that their cars are becoming ever blander by focusing on styling to stamp greater individuality on their products. No carmaker would admit that its latest model looks uncomfortably like a rival's. But car companies' sensitivity is evident in the growing popularity of distinctive radiator grilles to emphasise a car's provenance.

Stressing a car's brand through its styling has been central to the design philosophy at traditional marques, such as Mercedes-Benz, BMW and Jaguar, for years. All have an immediately identifiable profile and highly distinctive radiator grilles. "Prestige brands need to let the owner show he's driving that marque," says Mr Peter Davis, the head of styling at Fiat. But some mass-market brands have started going the same way. Ford's decision to focus attention on its distinctive oval logo - which has been reflected in the frontal styling of many recent models - has not won universal acclaim. Notwithstanding the aesthetics, the latest generation of Fords sends a powerful product message.

Fiat has become more design-conscious of late, and is also starting to pay more attention to styling features to distinguish its models from the pack. The deliberately prominent rear lamp cluster on the compact Punto hatchback has been followed by unusual rear lights on the bigger Bravo and Brava range. This concentration on styling for humdrum cars looks set to continue. As the freedom to differentiate key aspects of a car's appearance steadily shrinks, designers and manufacturers will inevitably turn to the details to make their products stand out.



New designs: stylists are striving to combine compact and striking appearances, while retaining the individuality of the marque's highly identifiable profile and radiator grille. Clockwise from below: Mercedes-Benz concept study for an All Activity Vehicle (AAV) which was displayed at the Detroit Motor Show in January; Audi has given design pride of place to its new TT coupé; Chrysler LHX concept car - an example of how a name is made with innovatively-styled vehicles; Renault Ludo concept car; Citroën Xanée concept car

■ Environment: by John Griffiths

## Car numbers to double and threaten the environment

Hopes of fume-free cities are fading as finding the technology proves too difficult

The world's car population will soon reach the 500m mark. If you ignore trucks, motor cycles and the hundreds of thousands of tuk-tuks, motorised rickshaws and other vehicular oddities put-putting so noisily around the developing world. If China, India and the rest of the developing world motorises to the same extent as in the West, the car population will double.

The environmental implications of such a development, in terms of increased exhaust pollution, congestion and the costs associated with it, are enormous.

Much progress has been made, notably through the introduction of the catalytic converter, during the past two decades in reducing the noxious content of exhausts. But the explosive growth of the world's vehicle population during that period has meant that pollution levels in many areas remain virtually unchanged.

Thus the world's motor industry is facing a big technological challenge to avert further air quality deterioration, and governments a difficult regulatory task to ensure that the car makers rise to it.

Legislators do not take the issues lightly. In the US in December, General Motors was fined \$11m and agreed to spend more than \$35m to modify 470,000 Cadillacs that the US government said were equipped with illegal devices to defeat pollution controls. It was part of the first ever vehicle recall specifically to reduce damage to the environment.

In Europe, the outline of proposed stricter new exhaust emissions standards for the end of the decade have been drawn up, although despite the fact that catalytic converters already remove more than 90 per cent of pollutants from car engine combustion.

Not surprisingly, this has stirred up industry resentments. "Contrary to popular belief, air quality in Europe has improved markedly in recent years and improvements in automotive technology have made a big contribution to this," according to Mr Jacques Calvet, chairman of

the Peugeot/Citroën group. "Cars marketed in the EU this year will emit between eight and 10 times fewer pollutants than those sold in the early 1980s. By 2000, 20 per cent of cars on the road (those that are old and not equipped with "cats") are likely to account for 50 per cent of emissions."

But the cost of achieving this situation has been high - estimated at more than £5bn for the European industry as a whole. Mr Calvet and other industry executives complain that the burden is an unfair one at a time when the industry is under severe competitive pressures.

In choosing to concentrate on further reducing the exhaust emission limits of new cars which are already more than 90 per cent "cleaner" than cars of the 1980s, the European Commission would seem to have missed an opportunity. For it could have made a much bigger, immediate improvement in air quality by providing incentives to drivers to remove the minority of "dirty" older cars from the roads.

The argument is a blatantly self-serving and one which would have the effect of increasing new car sales - as has already happened with national scrappage initiatives introduced in France, Spain and Ireland. Nevertheless, it has a trace of validity.

There are other drawbacks to targeting new vehicle tailpipes. In terms of the total energy equation, for example, the requirement imposed by catalytic converters that engines operate at a fixed - stoichiometric - air/fuel ratio for complete combustion increases average fuel consumption by around 5 per cent. That translates into hundreds of millions of extra gallons consumed annually across the global vehicle population, as well as the generation of thousands of extra tonnes of carbon dioxide, the main "greenhouse" gas of global warming. To date that has been a price well worth paying because of the huge drop in pollutants the "cat" makes possible. But, the industry now argues, further improvements can only be marginal for an ever higher cost.

Gradually, the Commission has been changing tack. Currently, it is still intent on further diminishing exhaust emissions with tighter standards for 1999. But it is now focusing more on setting targets for air quality, with a

more flexible approach on how the targets might be achieved. Based on the findings of the Auto-Oil group, a study programme set up by the Commission in 1994, prospects are looking positive. It has suggested that even present EU exhaust emission standards could allow Europe's air quality to reach World Health Organisation targets set for 2010, as older cars drop out of the vehicle population.

But in one respect, the past few months have seen hopes for cities free of vehicle exhaust fumes dealt a savage blow. Late last year, California's Air Resources Board (CARB) finally conceded that the technological obstacles still confronting battery-powered cars are so formidable that its mandate requiring 2

**The first stage of the mandate related only to manufacturers selling large volumes of conventional cars**

per cent of a car maker's sales in California in 1998 to comprise "zero emission vehicles" (ZEVs) was unenforceable.

Under the first stage of the mandate, which related only to manufacturers annually selling large volumes of conventional cars in the state, 2 per cent of the 1998 sales of Chrysler, Ford, General Motors, Toyota, Nissan, Honda and Mazda were to have been ZEVs - an estimated 22,000 vehicles. CARB still intends that a mandatory population of ZEVs will be on the state's roads by early next century.

But the decision by General Motors to go ahead with launching its EV1, formerly "Impact", electric car later this year shows just how far the ZEVs have still to go. The EV1 to go on sale will use lead acid batteries weighing more than half a tonne, but providing a range of only 70-90 miles, barely enough for a commute to the office for many Los Angeliños.

GM says it hopes that more advanced batteries will be available for it by the end of the century and a collabora-

tive US industry project, the Advanced Battery Consortium, continues to work on promising new couples such as nickel-metal hydride. These could increase range by 50 per cent or more. But such batteries have been proclaimed to be "just around the corner" for several decades. Nor is the EV1 a bargain, at a projected \$30,000-\$40,000.

The car should at least prove to be a useful guinea pig to test the recharging and other ZEV infrastructure which will be needed for California's streets. And the progress will be watched with intense interest by other car makers, all of which, no matter how reluctantly, have their own electric cars at various stages of development. All recognise that, in the long term, ZEVs will still be the quid pro quo for being allowed to sell their conventional cars in California's limited vehicle market.

It has also been a useful technological exercise in other respects for its aluminium and plastic composites body are being a radical exercise in weight-saving as an offset to the battery pack.

Weight-saving is an issue of mounting concern to the motor industry overall, because it is running fast to stand still. Airbags, doorbars, complex electronic convenience features and other fitments have all contributed to the weight of even a small family hatchback rising by more than 100 kilograms in little more than a decade.

Research into aluminium body structures which could save 30 per cent of body weight is well advanced, while Porsche has been leading a project backed by the world's leading steel producers to find a similar weight saving in steel bodies by optimising design and using thinner, high-strength steels.

Some environment-improving technology smacks almost of alchemy. Engelhard, the US catalytic converter specialist, has been working with Ford testing a catalytic coating on car radiators designed to convert the carbon monoxide in air passing through the radiator into carbon dioxide and ozone - or smog - into oxygen. The radical "PremAir" idea, in effect cleaning up a city's air simply by driving through it, does, however, have its drawbacks. It does not deal with hydrocarbons and oxides of nitrogen, linked with health problems and acid rain.

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# CREDIT MANAGEMENT

## New status and a new lease of life

The last recession gave credit management a central role in many businesses and has helped to focus attention on debt control, writes Jim Kelly

Thanks to the candid admission by Mr Michael Heseltine that he was once quite skilful at stringing along creditors, the whole issue of managing debt is enjoying a period of wider public attention.

The deputy prime minister defended his actions as a businessman to David Frost, the television interviewer, in a typically forthright way. "If I hadn't delayed I would have gone bust. They (the creditors) would have got nothing."

Mr Heseltine later insisted he was still a champion of pro-business attitudes in the UK but his comments have helped focus attention on credit management at a crucial time for the sector as it meets the challenges of economic recovery.

There is no doubt that the last two recessions have helped free the credit controller from the straitjacket of debt collection. Once locked away from the sales function, credit management has now won itself a central role in many businesses.

There is a wide recognition that credit managers control one of the biggest assets many companies are likely to have - recoverable debt. Willis Corroon, the credit insurance brokers, have estimated that at any one time 40 per cent of the total current assets of a business may be represented by its debtors.

Not surprisingly, the Institute of Credit Management has gone from strength to strength. It now has 8,000 members and estimates that a further 30,000 individuals are involved in the sector across the UK, and enjoying in many cases an enhanced role within the businesses employing them.

The recovery marks a significant challenge to this new status. Freed from the

need to monitor debt, many companies may be tempted to abandon the cost of rigorously monitoring the risk. But Mr William Simpson, chief economist to Trade Indemnity, the leading UK credit insurance company, believes the nature of the recent recession has in fact given credit management a new lease of life.

The unprecedented levels of company failures during the recession and the long drawn out recovery in a highly competitive economic environment have focused management attention on debt. "There has been a prolonged interest in credit management and this has made it a less cyclical product."

Traditionally, companies have gone to the wall in great numbers during the early phases of a boom. This time there has been a priority to clear debt first - one of the reasons for the sluggish pick-up in economic activity - and to rebuild balance sheets. "This has concentrated minds wonderfully on credit management."

Certainly, Trade Indemnity's statistics point to a slow but steady improvement in the payment patterns among almost 800 of its customers in the last quarter of 1995. The average value of debt per company has fallen to £117,000 in the quarter - compared to £151,000 in the quarter before and £170,000 in the quarter before that.

Payment delays beyond the due date have also fallen slightly on average to 22 - from 28 in the previous three quarters. The statistics show some interesting variations by sector - with nine the average in food distribution, and 23 among builders' merchants.

Mr Simpson also points to

the deluge of credit information now available to credit managers. ICC Information, for example, provides a whole range of "symptoms" which can be used to spot potential bad debtors. These include a search of county court judgments - with 40 per cent of failed companies having such outstanding judgments.

Other signals include a search through company accounts to find audit qualifications - with 33 per cent of failed companies having "severe" qualifications. An analysis of cashflow statements can uncover those businesses which make a profit but lack cash to pay the bills.

Spotting bad debtors is one of the traditional skills of the credit manager. Mr Paul Stevenson, an independent credit management consultant and a member of the institute, believes that the industry is developing other capabilities quickly. Among them is "query management."

"I think one of the big trends today is trying to draw the credit function into a customer service role," says Mr Stevenson. This involves analysing logjams in the system and discovering why some bills are unpaid. This is often found to be due to customer or supplier questions. Answering the queries frees up the flow of cash and improves customer/supplier relationships.

Mr Stevenson recently completed such an exercise for a client and discovered that 60 per cent of outstanding debtors were not paying because of unanswered questions. While this often involves negotiation over payment, in many cases debtors are simply waiting for a credit note.

He also believes that credit departments can play a positive role during a period of

expansion after a recession. "It costs a lot of money to find new customers," says Mr Stevenson. It is much better to identify those established customers, whose payment record is sound and who can provide the base for expansion.

Another element of the recovery that has helped to enhance the role of credit management is the part played by new markets overseas. "The demand for access to international risk management information has never been higher," says Mr Philip Mellor, senior analyst at Dun & Bradstreet.

But getting reliable information is not easy. Dun & Bradstreet, the business information group, complains that while Belgian companies may file promptly using a common format, the Italian and Spanish systems are less regulated, while "in Germany there is a distinct absence of company accounts."

In such an environment, companies such as Dun & Bradstreet are in fierce competition to provide cross-border data. It offers a global database with information on 39m businesses. It also monitors cross-border

trade. Its records on 1.2m UK businesses are updated from a new "call centre" in Newport, Gwent, which makes 7m calls a year.

The growing power of information technology means that many players now try to offer customers a range of services based on their databases. Mr Neil Munroe, associate director of Equifax Europe (UK), says the company tries to provide a "one stop" risk assessment service on consumers and businesses.

Mr Munroe believes the sector is progressing beyond simply vetting the relationship with new customers or suppliers. He says that Equifax's data is being called upon at other points in the life cycle of the relationship - for example when a consumer wants to purchase a big ticket item or when a collection strategy needs to be decided upon to deal with a specific debt.

Companies such as Equifax are trying to develop more pro-active relationships with clients. Its "alert project" monitors information on consumers and businesses and reports back if certain criteria

are triggered. "People got caught short during the recession depending on where they were in the payment chain," says Mr Munroe.

He instances, in particular, electricity suppliers: "They were often the last to find that something was going wrong as they were billing on a quarterly basis."

The hard lessons learnt in the recession appear to have given credit management a *raison d'être* even in recovery. The way in which the sector responds will decide if it has finally broken out of its anti-cyclical pattern.



BROMLEY

■ Late payments by Christopher Price

## Debtors may get better deal

Plans for legislation to combat the problem are being considered by both main parties

The row last month over Mr Michael Heseltine's apparent endorsement of making late payments to creditors, at the same time as the government was considering legislation to combat the problem, highlights the difficulties in getting a consensus on one of the most contentious of issues for small and medium-sized businesses.

The deputy prime minister admitted he had been "quite skilful at stringing along creditors" in his previous career as a businessman. He asserted: "If I hadn't delayed, I would have gone bust. They (the creditors) would have got nothing."

Both sides in the debate seized on the admission. The Labour party strengthened its commitment to introduce statutory interest on late payments in a trade and industry policy document to be published later this year. In the meantime, Mr Jon Owen Jones, a Labour MP, is to introduce a Private Member's Bill, which will allow companies to claim interest on outstanding debts.

This view has long been supported by the Forum for Private Business, a small company pressure group. It claims that around £20bn of debt is paid late each year, and that on average its members are paid 83 days after sending out an invoice.

"Michael Heseltine's boast demonstrates that, for as long as there is no effective legal sanction against late payers, there will always be those who cynically steal credit from their suppliers," says Mr Stan Mendham, chief executive of the FFB.

Other reports have also highlighted the problem of late payment. A survey by Bradford University of 655 manufacturing companies showed that on average less than 50 per cent of invoices are paid on time.

It also found that the typical firm quoting 30 days' credit is more than likely to be paid 60 days or later after the delivery date. Nearly 40 per cent of the businesses surveyed reported that their operations had been severely affected by late payments during the recession.

However, the survey also revealed that those firms citing



Michael Heseltine: "I would have gone bust"

late payment as a major business problem were likely to pay late themselves and had difficulties in obtaining bank credit and trade credit from their own suppliers.

It is this seeming contradiction that has led some organisations to oppose legislation. Instead, the Institute of Credit Management, the professional credit organisation, has argued for a more educational approach to late payment.

"Mr Heseltine's comments, however controversial, demonstrate beyond doubt why legislation for statutory interest would not work," says Mr Ted Brown, ICM's chairman. "Businesses that cannot afford to pay on time cannot afford to pay interest. Such a penalty would drive troubled companies to the wall."

In a recent policy document, the institute says research from the Association of British Factors and Discounters shows that of the five countries with the worst payment records in Europe, three - Italy, Spain and Cyprus - already have a statutory right to interest.

The institute also points out that under UK company law, a contract can include a clause stipulating a penalty for late

payment. However, few companies include it because of the fear of upsetting customers and also the potentially lengthy legal proceedings to pursue any claim. In addition, where late payment is due to a shortage of funds from the debtor, interest would only exacerbate the problem.

However, supporters of legislation argue that a simple interest-bearing clause on late payments would not be the subject of corporate ill-feeling or lengthy legal wrangling. It is more to do, it is argued, with the acceptance of such a system as part of a company's normal credit management process.

The FFB envisages the Bank of England setting an interest rate at a level sufficient to hurt all companies. If incurred, the interest would be paid separately into an account which the creditor could collect over a period of perhaps several years. This would allow companies with trading difficulties to pay any interest at a more convenient time.

In tandem with this, a late payer's annual accounts would include liability for interest on late payments. This would act to encourage companies to

reduce the amount of interest, which would be offset against their turnover.

The government's view has veered between the two camps. After last seriously considering legislation two years ago - and rejecting it - the government is again testing the corporate temperature on late payment legislation.

However, in January Mr Richard Page, minister for small business, told the House of Commons that the government had not received "any positive push" for legislation on late payment. One issue under consideration is the use of a statutory instrument to force companies into disclosing their policy on payment in their report and accounts. The aim is to shame businesses into becoming better payers.

Meanwhile, Mr Heseltine was not the only member of the government to be embarrassed about the late payment issue. The Labour party published figures earlier this year which showed the government owed £208m paid late to British business in 1995. The Department of Education was singled out as the worst offender. Labour claimed it settled £78m - or 5 per cent - of its bills late.

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## II CREDIT MANAGEMENT

Credit finance in the US: by Richard Waters in New York

## The job gets bigger

Credit managers have sought to expand their roles, partly to justify their existence

Many credit managers in the US have seen their working lives change steadily during the 1990s.

"In the past, credit was its own kingdom," says Mr Mike Durrant, a researcher at the National Association of Credit Management. Setting a credit limit and chasing debts were the sole functions: the size and lateness of outstanding payments the only issues of concern.

Now, adds Mr Durrant, "many companies are moving [credit management] into the customer service area. It's forcing credit managers out of their box." In the process, it is also broadening the skills that US credit managers need to develop and raising new issues about the way the function is managed.

One reason for this shift has been the fad for "re-engineering" which has swept across US industry in the 1990s, stemming from the drive to cut costs. Combining functions which used to exist separately, such as credit management, customer service and sales, has enabled many companies to reduce staff numbers.

Credit managers have themselves sought to expand their roles, part of a process of justifying their existence. "If we are only seen as bean counters, collections people, we'll be out of a job," says Mr Dan Wolner, national credit and customer services manager at Harmon Glass, the second biggest US supplier of replacement windshields for cars.

There are other, positive reasons for this reorganisation of the credit function. By bringing credit management and sales closer together, many US companies claim to be using credit decisions more creatively to win sales.

As Mr Wolner, writing in a recent issue of the US trade magazine *Business Credit*, comments: "For Harmon Glass, maintaining profitability and protecting declining margins meant listening to customers and studying market forces."

These are pressures being felt across US industry. Resistance to higher consumer prices, together with higher commodity prices, have put the squeeze on profit margins up and down the production and distribution chain.

That has forced many companies to work harder to understand their customers' businesses. And credit managers, who have always been one of the main points of contact between a supplier and customer, have come to play a more important part in that process.

One result of this merging of credit management with customer service has been a re-examination of the way performance is measured. The

traditional yardstick for the effectiveness of credit managers - days' sales outstanding, or DSO - is a simplistic measure which does not capture the full contribution a credit department makes.

Yet, despite a widespread recognition of the weaknesses of DSO, most companies "are not moving away from it very quickly," says Mr George Galinger, an associate professor at Arizona State University who has worked on developing more effective performance measurement systems.

## Companies have had to work harder to understand their customers' businesses

A second force that is revolutionising the way credit managers do their jobs in the US is technological change. At one level, this has speeded up the credit approval process, thanks to the availability of credit information online.

"It has greatly increased our ability to respond quickly," says Mr David Young, vice-president of corporate credit at Russell Corporation, the biggest manufacturer of athletic clothing in the US. "Now, if our customers order something in the morning, they want it [shipped] that

afternoon." Companies that can't respond quickly risk being left behind.

Better availability of credit information, and software to model credit risks, has also enabled companies to push more credit decisions out into the field, rather than centralising all decisions in head office. "Collectors are increasingly required to set credit lines in their own parts of the country," with discretionary limits typically of \$50,000-\$100,000, says Mr Durrant. Better information makes it easier for these people to do their job - and for head office to monitor their performance.

Though becoming increasingly common in companies whose geographic reach spans the country, this decentralisation is by no means a universal trend. "There are still big differences of opinion," says Mr Young. "Centralised, you can get by with fewer people."

Another notable technological development is common throughout business life in the US: the spread of voice-mail. While enabling companies to cut costs, this has been a mixed blessing in such areas as credit management, where there is a high level of contact with customers.

Mr Young, who prides himself on picking up his own telephone rather than leaving it to voice-mail, says technology should be enhancing contact with customers, not getting in the way. The goal, he says, is "increased customer service, and getting back to basics".

## CASE STUDY US retailing

## Stores may face a shake-out

Insolvencies have become a steadily decreasing concern among US credit managers as the 1990s have progressed - unless, that is, your customers happen to be retailers.

During the first half of 1995, around 36,000 bankruptcies were reported in the US, accounting for some \$12bn of liabilities. While that represents only a 1 per cent decline in the number of cases from the year before, it is also a 13 per cent fall in the amount owed to creditors - a sign that insolvency has increasingly been a problem afflicting smaller, often start-up companies.

The retailing sector, though, stands apart. A spate of bankruptcies among department store chains, including the upmarket Barneys, has sent tremors through an already nervous group of suppliers. And that is even without the financial troubles of Kmart, the giant

discount retailer, which seems to have staved off the threat of insolvency - at least for the time being.

"The problem is simply too much square footage," says Mr David Young of Russell Corp. "We have enough retail space for 1bn people - the trouble is, we've got only 250m." The result, he predicts, will be "a shake-out over the next five years".

Retailers are currently raising the hackles of credit

## 'The problem is simply too much square footage'

managers for other reasons as well. One of the biggest complaints: that many use any excuse to deduct amounts from payments to suppliers. Rather than an occasional event, some now apply such deductions as a matter of course. "In some organisations, it's a profit centre - especially in some department store chains," says Mr Mike Durrant of the National Association of Credit Management. RW

Insolvency reforms: by Sydney Paudlen

## Doubts are cast on moratorium

Banks and others are worried that a suggested period of 28 days' grace could be abused

There has been a major shift in attitude to the government's proposals last April to give smaller companies a 28-day moratorium before debtors move in to close them down. The plans were originally well received, because there was a general consensus that we had to progress from a frantic scramble for assets to a "rescue culture". The government limited the new proposal to companies that qualified under two of the following three criteria: a turnover of less than £2.5m; a balance sheet total of less than £1.4m; a workforce of less than 50 employees.

It had been felt that in the fight to get a share of anything of value in a failed small company, many businesses were being scrapped that could well have had a future. This would impact on the number of people that could be kept in work, recognised by everyone as a prime requirement.

However, during the period of consultation, more comments have been made on the impracticalities and dangers inherent in the plan than on the benefits it might bring. The banks are particularly concerned, because it is suggested that they should give five days' notice of any intent to appoint a receiver. The Society of Practitioners of Insolvency, whose members include all the big accountancy firms, has serious reservations.

And companies that collect debts on behalf of large numbers of creditors are beginning to be very pessimistic.

Two main themes are common to all the criticisms. There is the fear that in those cases where poor management or even fraudulent practice has been the cause of a small business's failure, leaving the same directors and managers in charge for a further 28 days could simply mean a further wastage of assets that might otherwise be salvaged to the benefit of the business's creditors.

## It could simply mean a further wastage of assets that might otherwise be salvaged

Secondly, there is real concern for any new suppliers to which the failing company's managers might turn for goods and services on credit.

Mr Phillip Oppenheim, company affairs minister, believes that he has foreseen these problems and built into his proposals the idea of a supervisor being in place during the moratorium. His view is that the moratorium would only go ahead on condition that the supervisor sees a "reasonable prospect for success" during the 28-day stand-off.

The banks' view is that they have always kept a close eye on client companies that have begun to meet financial diffi-

culties and that it has been their practice only to impose a receivership when they see no prospect of a company trading its way out of its problems.

The bankers foresee many situations where the very concept of "reasonable prospect for success" becomes a breeding ground for future litigation. On the one hand, creditors could argue that the decision to call for a 28-day moratorium was the result of misjudgment and cost them money when assets became further dissipated. On the other hand, the directors and workforce of businesses put into receivership without a moratorium could argue later that there had been a good case for a 28-day breathing space that might have saved their livelihoods.

The insolvency specialists are equally worried, especially from the point of view of their own reputations, on which they stand or fall as dependable people to call in to handle business failures.

Mr Roy Welshby, a senior insolvency partner at Grant Thornton, believes that self-respecting practitioners would shy away from a situation where they are appointed as a supervisor, presented with a failing company, but powerless to intervene if the management of that company continues to make mistakes for a further 28 days to the detriment of the creditors.

He is convinced that the finger would be pointed at the supervisor who, in his opinion, would have no powers to avoid serious errors or even wrongdoing. If he had, he argues, then the situation would be

indistinguishable from a receivership, where the insolvency expert takes control of the business and attempts to organise the maximum benefit for all concerned. "It has always been our objective," he insists, "to salvage everything worthwhile. Leaving incompetent managers in charge would not exactly improve the situation."

Intrum Justitia, Europe's biggest debt collection group of companies, sees little benefit to creditors in the new proposals. "In our view," says Mr Chris Dixie, a senior manager, "when

## 'Leaving incompetent managers in charge wouldn't exactly improve the situation'

it has become clear that a business is on the point of failure, it has many debts that are 90 or 120 days overdue and creditors would become frustrated if there were to be a further extension of credit during the period of the moratorium.

Intrum Justitia describes the moratorium as "prolonging the agony", as it assumes that sensible, honest managers of a business would have been aware of the approaching disaster for some time before the event and would have had ample opportunity to propose new ideas and ask for co-operation from their creditors.

"It could be construed," suggests Mr Dixie, "as giving

rogue directors an extra opportunity to dispose of assets to their own and not the creditors' benefit."

Mr David Coates, a director of the CCN Group, specialists in reporting on the financial status of businesses, is very concerned at the possible damage to companies that give credit to failing businesses during a moratorium.

"We have to assume," he says, "that existing suppliers and lenders will be informed of a moratorium. Many may refuse to increase their exposure by supplying further goods and services on credit. The affected company will therefore turn to alternative suppliers as it bids to survive with a rescue scheme."

He suggests that the new suppliers would have to be informed and the obvious way might be for Companies House to be alerted that a moratorium is in place and for credit reporting agencies to be told that information as a "state critical document" and tagged to its clients.

"However," he adds, "vital days would be lost by the time the information is processed through Companies House. Alternative means might be to list a moratorium in the London Gazette and to inform credit agencies directly."

The industry as a whole has shown itself keen to assist the government in its attempts to create a "rescue culture" and give small businesses in particular every opportunity to overcome temporary difficulties to the benefit of society as a whole. However, few specialists seem to view the 28-day moratorium as the answer.

Insolvency Service reforms: by Sydney Paudlen

## Privatisation move awaits go-ahead

The plan - the Official Receiver would cede responsibility in a key area - is risky

The Insolvency Service's delay in announcing a decision on privatisation bids has been interpreted by many as a bad omen.

The service is part of the Official Receiver's Office, which is an executive agency of the Department of Trade and Industry and steps in when individuals go bankrupt and companies fail. It deals with over 50,000 company failures and personal bankruptcies a year and has a total staff of about 1,750. It has always been seen as carrying the responsibility for maintaining confidence in the framework of business as a whole, especially in tackling those situations where there is even a suspicion that insolvency may be the result of fraud or wrongdoing.

Since July 1993 it has been considering the possibility of contracting out to the private sector the case administration work relating to bankruptcy and compulsory liquidation cases. In July 1994, it set about analysing the likely costs and benefits and the mechanism for handling privatisation.

The work of the Insolvency Service was seen by the DTI to encompass two distinct areas of responsibility. On the one hand, there was the task of taking control of the assets of a failed business or person and

already taken on a number of contracts for the government, such as the management of written examinations for the revised system of driving tests. It is assumed that the management companies would take over much of the existing structure and staff of the Insolvency Service and manage it on a private basis. The firms of accountants are experienced in insolvency casework and would obviously expand their existing facilities.

The DTI found itself obliged to announce that it required a further month after the December deadline to obtain clarification on a number of points from the three bidders still in the frame for the contracts. The suspicions within the insolvency sector are that the three bidders looking for regional work have been eliminated and that the government is keen to ensure that the remaining three knock their offers into shape to make it possible for the DTI to accept them.

Mr Keith Ellis, a spokesman for the Institution of Professionals, Managers and Specialists (IPMS), says that his union is strongly opposed to the privatisation plan. It will, he suggests, cost about 1,000 jobs. From the public's point of view, he insists that privatisation

will seriously undermine confidence in the way business is run in the country.

"The DTI," he says, "is totally overlooking the value of the first contacts that are made with the directors and premises of a failed company." Currently, he maintains, experienced inspectors get an immediate feel for the case at the point where the managers of a failed business are at their most vulnerable. He argues that if the two areas of respon-

## The unions are critical of the mechanics of paying private contractors

sibility are separated between the private sector and the Insolvency Service, then there could be a considerable delay before the service is made aware of any suspicion of wrongdoing. By that time, he says, the managers would be on their guard and much of the vital documentation required for a full investigation and eventual prosecution might have disappeared. "An investigator would then have a difficult task in piecing a complete story together."

The unions are also highly critical of the mechanics of paying private contractors for the service. It appears that there will be a fee per case. To maximise profitability, a private company would wish to clear all outstanding matters in a case as rapidly as possible. There would be a disincentive to dig further to investigate possible wrongdoings in order to hand it over to the insolvency service for possible prosecution of the directors.

In the current system, examiners from the Insolvency Ser-

vice work on a case of failure from beginning to end. They use their skills to assess whether or not assets have been wrongly siphoned off to the benefit of the directors before the collapse of a business and they retain all forms of evidence that might be of value if a prosecution is brought at a later date.

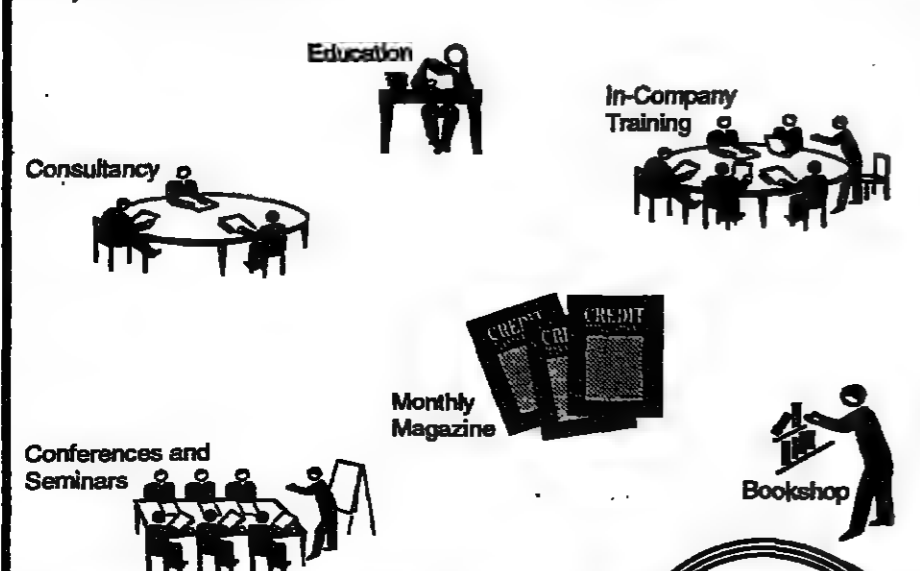
Under the new privatisation system envisaged by the DTI, the tracks might have grown cold before the service is informed of the suspicious and this could benefit fraudsters and be to the detriment of the creditors.

Stoy Hayward, the firm of accountants and insolvency practitioners appointed by the DTI to report on the privatisation plan, made clear its reservations on this very point. "The private sector would have an important role in setting standards and spotting fraud before handing work over to the Official Receiver's Office. If this interface did not work well, future investigations would be impaired."

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## A suspicion that insolvency may be the result of fraudulence

disposing of them to the maximum benefit of the creditors. On the other hand, there was the investigation and litigation that might follow, if any possible fraud or wrongdoing came to light. The DTI decided that it would be necessary for the Official Receiver to retain the second area of responsibility, but that the first area could better be taken over by the private sector.

In 1995, it invited six companies to bid for all or part of the work to be hired off, estimated at a value of £30m a year.

The deadline for bids was December 4 1995, with a view to handing out contracts to begin by May 1 1996.

The bidders tended to split into two sets of three - those who were interested in taking on the work for the country as a whole - and those that would primarily be interested in handling the work essentially in their own region. They included four firms of chartered accountants, Byrne Associates, Jacksons, Larking Gowan and Neville Russell. The other two bidders were providers of managed services, namely ITNet and Capita Managed Services.

ITNet is part of the Cadbury Schweppes Group. Capita has



The old foot-in-the-door, bully boy approach to collecting debts is becoming a thing of the past. Special skills are required to assess the financial situation of debtors, the value of assets at their disposal and their ability to settle a debt immediately or in instalments.

Ms Michelle Scott, director of operations at Intrum Justitia, the debt collection and credit management group, says that a significant number of her agents are

women. The size of the force is being increased from 1,500 to 1,800 and candidates with different backgrounds, such as commercial collections, consumer debts, repossessions and mortgage repayment arrears, are being sought.

"There is no better way of collecting data about a debtor than through a face-to-face meeting," she says. The company's field agents collect more than £18m of debts a year.

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## CASE STUDY Reject Shop

## A deal that went awry

When Upton & Southern, the Middlesbrough-based retail group, reports its interim results later this month, the figures should be free of the damaging impact of Reject Shop, the disastrous acquisition which went awry last year.

Last May, just over a year after it acquired the business, Upton & Southern told the board of Reject Shop that it could no longer provide the debt-ridden and loss-making subsidiary with funds.

Reject Shop, which had liabilities of \$8m, asked its bankers to put it into receivership. For most of its time under Upton's ownership, it had suffered financial and legal problems.

Without the intervention of Grant Thornton, the receivers, Upton's own livelihood may have been at stake. "It was hammering cash, and it was obvious to me that unless we could stop that, it would bring down the parent company," says Mr. Ron Trenter, executive chairman who joined the board some two months before the receivers were appointed.

Upton was also vulnerable because it was potentially liable to guarantee a \$500,000 bank loan to Reject Shop.

Within a month of being called in, Grant Thornton was able to sell 10 of the beleaguered chain's 31 shops and the trademark name to a consortium led by Mr. Jeffrey Gould. Ironically, Mr. Gould was the chief executive who led Upton's \$2.5m bid for the

loss-making Reject Shop in 1994. He left Upton about two months before the receivers were appointed at the subsidiary.

When he joined Upton, Mr. Trenter, a former chief executive of Texas Homecare, believed it could be turned around. He quickly identified the problems at Reject Shop: "Overhead costs were too high and only a third of the shops were making any profit at all."

Before Mr. Trenter's arrival, the group had raised \$5.4m from a placing and open offer in November 1994, in an effort to stem the damage. It had also alleged that Reject Shop's financial and trading position was materially worse than represented when it was bought, and took legal action against five former Reject Shop directors for misrepresentation. The directors have denied the allegations.

As soon as Mr. Trenter joined the Upton board, it began negotiations with its bankers over restructuring of Reject Shop. It considered various rescue options, including a creditors' voluntary administration, which would have put debts on hold while the group tried to sort out the business.

Mr. Trenter said the bankers, led by National Westminster Bank, would not agree to such an interim move, while Reject Shop was trading at its banking limits. "Everything was coming to a standstill," said Mr. Trenter. "We had to be very careful

that the company was not trading illegally. I had a lawyer by my side at all times."

The board's options seemed to be exhausted. "The more help and advice you need, the more it costs," says Mr. Trenter. "It was a perpetual disaster."

The receivers swiftly invited bids for all or part of the business. Mr. Gould made the best offer. He says the Reject Shop group is now running profitably.

The purchase price, undisclosed but estimated at \$2m to \$4m, could not cover all of the business's debts. Some preferential creditors, such as the Inland Revenue, were paid, but unsecured trade creditors were "unlikely to get anything".

While creditors of Reject Shop who have lost out may be nursing their wounds, their pain has saved a greater disaster. "In economic terms, if 10 per cent of a group goes into receivership rather than 100 per cent, that is the price of survival of the 90 per cent left and sometimes that is the hard bullet that has to be bitten," says Mr. Steve Hill, technical insolvency partner at Coopers & Lybrand, the accountants.

The receivers were also left to try to sort out compensation for customers who had made deposits with the business. "We were dealing with thousands of depositors," says Mr. Scott Barnes, partner at Grant Thornton.

Customers, mostly for

furniture, had made deposits with the Reject Shop, but to many cases, the goods had not yet been delivered.

"Where we were able, if the goods were identifiable either within the shops or within the warehouses of the suppliers, then we tried to protect the position of the depositors, but where the goods were not available, regrettably, they had unsecured claims and could not do anything about it," says Mr. Barnes.

In a financial restructuring last August, National Westminster Bank released Upton from \$400,000 of its liabilities in connection with Reject Shop. The group also raised \$1.55m net through a placing of 1.7m convertible preference shares at 51 each.

In the year to July 29, the group posted losses of \$9.59m on turnover of \$30.4m. The deficit incorporated the \$3.27m trading losses of Reject Shop up to its receivership, a \$6.06m write-off of Upton's investment in the subsidiary and about \$250,000 for resolving other known contingencies and obligations.

Mr. Trenter hopes that, with the announcement of the group's results this month, he can leave the shadow of Reject Shop behind. "By putting Reject Shop into receivership we saved Upton's business and it will now progress forward," he says.

Motoko Rich

## The rescue culture: by Jim Kelly

## Good idea, but can it work?

There is disquiet over an insolvency tool which shifts the balance of power so markedly away from the creditor

The government is discovering that it is a lot easier to talk about a rescue culture - a climate in which businesses do not fall prey to jittery creditors - than actually to deliver reforms which can work.

Meanwhile, the insolvency profession largely believes that commercial logic can produce a rescue culture as long as the professionals are not rigidly constrained within a web of new government regulations.

There is little doubt that Mr. Kenneth Clarke, the chancellor, takes a personal interest in the issue. His conviction, that the banks often remove support too quickly from ailing companies, has helped fire the current reforms.

He has used the high profile provided by the Budget to preach the word. As early as December 1994 he was telling the Commons: "During the recent recession businesses, particularly small businesses, were too often being closed down by their creditors and jobs lost before rescue options had been properly explored."

The Department of Trade and Industry is still working hard behind the scenes to find a way of introducing its ideas for 28-day moratoria for businesses in financial trouble during which directors can put together a rescue plan.

Under the new proposals, the debtors in effect stay in possession of the assets, while the creditors are barred from forcing a closure. The government plans have been met with unease among groups such as banks, while insolvency practitioners are worried about their powers and responsibilities as supervisors.

This idea, reminiscent of the US Chapter 11 principles, has been broadly welcomed by the Society of Insolvency Practitioners but has also met with a raft of technical criticisms. Essentially, there is disquiet over an insolvency tool which shifts the balance of power so markedly away from the creditor.

In recent weeks fresh evidence has emerged that the DTI, from its Insolvency Service arm, is still serious about trying to use the law to help engender a rescue culture. Pri-

vate papers have been circulating outlining a plan to help more businesses go into administration - rather than receivership.

The difference between these two procedures is crucial. Administrators, in the words of insolvency experts Cork Gully, have as their objective "to rescue the business or maximise asset values". In contrast, the receiver's role is to "recover debt and to achieve a going concern sale where possible".

Of course, a sale may preserve the business if not the company - but administrators' responsibilities give them a unique place in the rescue culture. The government's idea is that courts would be able to put an administrator in place of a receiver where "it is clear" that the security of a chargeholder - such as the bank - is not at risk.

This, again, is an idea which will receive widespread support in theory but throws up a range of problems in practice. It appears to require a court to value a business in order to be clear that assets exist which can cover the bank's security if the administration fails.

If the procedure is not watertight, there is the obvious possibility that it could make credit more expensive to reflect the perceived risk taken by the banks. Mr. Scott Barnes, head of insolvency at Grant Thornton, asks: "What's the attitude of the banks going to be when their main weapon of recovery is taken away? This needs some careful thought - although we are all in favour of the broad idea."

But the government's determination to become identified with the rescue culture - even in a period of relative recovery - should not be underestimated. For example, within recent days it has signalled that the UK may be on the

point of singling a convention allowing insolvency practitioners to operate across European borders.

The EC Convention on Insolvency Proceedings has been a dream for 30 years - always stymied by the opposition of one or more of the member countries. The once ambitious framework has been toned down and, after consultation, the UK may now be ready to sign. If Ireland and the Netherlands also back the idea, then the dream could be a reality. It

real desire to help businesses before they fail it also springs from the dwindling revenue stream from traditional insolvency work as the economy emerges from recession.

Pre-insolvency work has come of age. Businesses - and more importantly the big lenders - have become increasingly aware of the advantages of "invisible rescues". The recent recession did much to promote this transformation. While the 1980s saw insolvency experts dealing with industrial failures which could often be handled with traditional skills - allowing the business to trade and then be sold - the 1990s brought a crop of failures which needed a more creative approach.

"The failures of the 1990s were a million miles away from those of the last few years," says Mr. Colin Bird, Price Waterhouse's head of insolvency. The size of many of the 1990s failures meant that they often contained hundreds of separate businesses, which were often in themselves viable.

In many of these, especially where the principal assets were the employees, there was a need to avoid a formal business failure. The banks played a significant role in the new approach and by protecting their investment placed the emphasis on pre-insolvency skills.

Mr. Chris Hughes, head of insolvency at Coopers & Lybrand, says: "Clients have become much more aware of the need for specialisation. There is a need to bring together the right skills - it's a bit like conducting an orchestra." Cork Gully, now part of Coopers, has become a name reserved solely for liquidations.

Most of the Big Six now control rescue operations from a "conductor" group which can bring together various skills to suit the problems of the client. For example, Ernst & Young's is called the Restructuring and Reorganisation Service and is headed by Mr. Stephen Adamson, the lead administrator for Canary Wharf, and one of the best known names in the business.

Mr. Adamson offers an aphorism that should perhaps be memorised by all finance directors. It also encapsulates the marketing stance of the Big Six's new pre-insolvency culture. "A company heading towards insolvency does so as an ever-increasing rate unless, and until, the intervention of a third party."

## Accounting reform for small companies: by Jim Kelly

## Frizzy may make it easier

If adopted, the new standard could become binding after consultation

Small and medium-sized companies have always complained about the burden of drawing up comprehensive accounts but radical deregulation has been hampered by fears that users - and especially the retail banks - would suffer as a result.

But now reform is in sight. In the shape of the Financial Reporting Standard for Smaller Enterprises, or "Frizzy". If officially adopted by the Accounting Standards Board, the new standard will revolutionise the financial data upon which creditors rely.

Nearly 900,000 small companies would be freed from having to comply with existing accounting standards under the published last December - in return for following a special code of their own.

Experts involved in the project believe that costs for small and medium-sized companies could be cut by a total of more than \$50m a year. The new standard, which would be issued alongside those for larger enterprises by the Accounting Standards Board, would replace more than 600 pages of rules with just 40.

The Frizzy has been put forward by the working party set up by the accountancy profession at the request of the ASB - the UK's official financial reporting watchdog. If the proposals find support, a draft of the Frizzy will be passed to the ASB. It has the power to turn it into a binding standard after consultation.

It would not be compulsory, but companies could not mix the two systems. The move is likely to be welcomed by the government and business leaders for helping to cut the estimated \$50m cost to UK business of compliance with official regulations.

But two concerns are likely to have emerged during the consultation period. The main one is that companies not covered by the exemption may



John Alexander, head of corporate recovery at Pannell Kerr Forster, has called for a Business Rescue Act to stem the flow of receiverships

would require companies to show the cost of leases on a straight-line basis rather than embroiling a small enterprise in the complex calculations required of SSAP 21. "It brings you closer to cash," says Mr. Wild.

He believes that this emphasis on bringing the accounts of a small enterprise in line with the cash realities of running the business will make the accounts simpler and more useful. "We are trying to make the accounts better for a range of people to use."

The Frizzy proposals may find widespread support simply because other solutions to the problem have been far more radical - including the working party's own initial findings. One influential member of the working party has already published his own blueprint.

Mr. Peter Walton, of the University of Geneva, recently published a paper which placed the profit and loss account at the centre of a reporting regime for the owner-managed business.

His paper, for the Foundation of Manufacturing and Industry, not only seeks to alter the quantity of information in owner-managed accounts but also the quality - by putting forward different measurement requirements. He assumes that the only real users of such accounts are retail banks and tax authorities.

The taxman would be interested in profit measurement while the banks would be looking at asset values, cash flow, and liabilities. As a result, the balance sheet is of much less value to external shareholders - but more interested in a P&L drawn up along tax measurement lines.

Meanwhile the Frizzy proposals are out for consultation. It is understood that the credit sector has examined them closely. If Mr. Wild's view that the scheme offers simpler and more useful accounts is accepted, then the Frizzy could usher in a new era of reporting for smaller enterprises - and their leading financial investors.

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## IV WORLD MOTOR INDUSTRY

■ Brazil and Argentina: by Jonathan Wheatley and David Pilling

## Two hoping to make the fast track

For manufacturers, cross-border integration is becoming more attractive

Carmakers in Brazil and Argentina hope 1996 will confirm their markets as two of the fastest growing in the world after a mixed performance in 1995. A new trade agreement will help, so will an expected surge in investment.

While Brazil's motor industry enjoyed another record year, with domestic sales up 13 per cent to 1.35m units and production up 3.4 per cent to 1.64m, growth was concentrated in the first half. From June onwards, things were less rosy after the government restricted credit across the economy to contain a potentially inflationary spending boom.

Argentina's industry had a tougher time. After four years of steep production increases, output fell by more than 30 per cent to only 285,273 units in 1995 from 408,647 the previous year. That drop was the result of the sharp recession as the Argentine economy contracted by about 3 per cent in the wake

of Mexico's devaluation. Car sales were the worst-affected area as credit all but disappeared.

Nevertheless, manufacturers in both countries are bullish about the future. "If economic stability is sustained for the next two years, meaning the return of consumer credit, then we should see an explosion in car sales," says Mr Miguel Jorge, vice president for corporate affairs at Volkswagen in Brazil. He points out that average earnings in Brazil have risen from \$2,800 a year to \$4,000 over the past five years, bringing many Brazilians into the car market for the first time. "Imagine the market growth if earnings reach \$6,000 a year," he says.

Anfavea, the Brazilian auto industry association, is confident of sustained growth. It says production will reach 3m units a year by the end of the decade. Mr Domingo Cavallo, Argentina's economy minister, says output this year will return to 1994 levels, while private sector analysts say eventual production of nearly 1m units is achievable.

Both markets have recently acquired conditions for growth thanks to inflation-beating eco-

nomic reforms. First Argentina, in 1991, then Brazil, in 1994, succeeded in stabilising their currencies and boosting consumer spending power. Production of cars in Argentina quadrupled from 1990 to 1994. In Brazil, the arrival of new entry consumers in the market has lifted production of "popular" cars. Sales of these no-frills models with one-litre engines rose by 33 per cent last year and now account for half of all domestic sales. Growing trade liberalisation in both countries since 1990 has also boosted sales of imported cars, banned for decades to protect local manufacturers.

In Argentina, car imports rose from around 700 in the mid-1980s to an estimated 120,000 last year. In Brazil, imports reached 300,000 in the first six months of 1996. This prompted the government to impose 70 per cent import duties and restrict total imports for the second half of the year to 150,000. The use of quotas sparked a row between Brazil and Argentina and brought criticism from the World Trade Organisation.

Brazil lifted the quotas but retained its 70 per cent tariff, with the result that imports



The Volkswagen team celebrates sales reaching the 11m mark. The market leader announced expansion plans and hopes for a return of consumer credit and sustained economic growth

fell to a rate of around 15,000 units a month.

Now the two governments have signed a deal that supplements agreements for the auto industry under the Mercosur trade pact between Argentina, Brazil, Paraguay and Uruguay. Manufacturers operating in both countries may import parts and vehicles duty-free, provided they export parts and vehicles to the same value. This puts them at an advantage over companies that only import vehicles, which must pay duties in full.

Brazil's trade ministry says the accord will underline the country's status as a vehicle manufacturer. There is plenty of room for growth: just one in eleven Brazilians owns a car, compared with one in five in Argentina and about one car per person in the US.

Manufacturers will spend heavily over the next few years. The four big international car makers in Brazil - Volkswagen, Fiat, Ford and General Motors - have all announced expansion plans.

Announcements of new car factories are expected soon

from Hyundai, Mercedes-Benz, Asia Motors and Renault, while Toyota, Honda, Mitsubishi, Peugeot and Audi are all reported to be considering setting up in Brazil. The trade ministry says the industry plans investments of \$10.5bn to the end of the decade.

Over the same period, international manufacturers in Argentina have pledged about \$3.7bn in investments, with Chrysler, Ford, Fiat, General Motors and Renault all planning to set up plants.

For manufacturers, cross-border integration is becoming increasingly attractive. Volkswagen, the market leader in Brazil, makes around 700,000 vehicles a year, all fitted with gearboxes made at its factory in Cordoba in Argentina. In turn, the gearboxes are made using some parts produced in Brazil. Fiat has similar arrangements. Fiat and General Motors will soon operate in both countries.

Total exports from the two countries were around 320,000 in 1995, of which more than 70 per cent was in bilateral trade. But with virtually no auto production south of Mexico outside Brazil and Argentina, car makers are likely to look for more opportunities in other local markets.

Sales in the rest of the continent are around 300,000 a year and growing, and this offers further potential as yet under-exploited by manufacturers in Brazil and Argentina.

■ Mexico: by Daniel Dornbey

## A transformed industry

Carmakers have turned to exports but not enough to offset the slump in home demand

After a year of almost impossible challenges, the shape of the Mexican car industry has been transformed.

A collapse in the domestic market, a rise in exports under the North American Free Trade Agreement (Nafta) and the increasing use of domestic components in car assembly have all come in the wake of the 1994 peso devaluation and the economy's 7 per cent contraction in 1995.

Domestic sales have plunged 65 per cent, from 418,000 units sold in 1994 to 143,500 last year, and most manufacturers expect that three or four years will pass before 1994 levels are regained once more.

But the effects of the current crunch have not been spread evenly among the five main companies - the US Big Three, Volkswagen and Nissan.

"Volkswagen and Nissan have suffered greatly because of their penetration of their vehicles in the lower end of the market, which has been especially hurt by the credit crunch this year," says Ms Kimberly Smith, an analyst at JD Power in Detroit.

Mexico's banking crisis, which also deepened after the peso's fall, has meant that the country's banks have carried out little or no lending during the past year. At the same time, interest rates which stand at twice the level of their United States counterparts in real terms have deterred even those who can get financing.

The car companies have switched production dramatically around to exports, increasing foreign sales to 584,700 units, 21 per cent up on 1994, but still not enough to compensate for the slump in Mexican demand. In any case, exports are markedly less profitable than domestic sales.

"All your plans, strategies go out the window," says Mr Gary Cowger, the head of General Motors' operations in the country in remembering the first, uncertain days after

the devaluation. In the end, the car manufacturers' response to the crisis was largely fashioned by Nafta, which has reduced tariffs on cars with a high level of content from participating countries, although its provisions will, in fact, not come fully into force until 2003.

"The ability of Nafta is the ability to rationalise. You are not building large amounts (of types of vehicles) in small volumes," said Mr Cowger.

Now, the companies have not just concentrated on building large volumes of a few vehicles for international markets - overwhelmingly for the US - but also changed production processes.

"The (worldwide) trend is to look for more local suppliers and local based international suppliers. Following the devaluation we have seen more reason to use even components with peso cost," said Mr Philippe Maillet, chief executive of Ford de Mexico, who points to the manufacture of engines in Chihuahua in Northern Mexico for domestic assembly and for export as a chief indicator of change.

■ Globalisation: by Haig Simonian

## Going global is nothing new

Many carmakers have chosen to avoid the problems of worldwide manufacturing

Forty years ago, the great majority of the new cars bought in Japan were made by manufacturers from abroad. At much the same time, Volkswagen inaugurated its first factory in Brazil. And as early as 1911, Ford opened its first foreign production site when it started building cars in the UK.

Globalisation, it seems, is nothing new to the world's carmakers. But while many manufacturers have expanded far beyond their original homes, it has recently become necessary to distinguish between car companies which are merely "multinational" and those with "global" pretensions.

The difference is one of philosophy rather than semantics. Being "global" means not just building cars from São Paulo to Shanghai, but adopting an integrated approach to how that far-flung empire should be run.

A "global" car company, for example, would centrally plan its entire model range, which would be built on a limited number of basic "platforms". Although the metal skins attached to them may differ to suit local tastes, the basics, such as wheelbase, width and key engineering details like the location of the central pillar, would be identical.

Globalisation, in the sense of integration, embraces manufacturing and marketing as much as design and development. Although a truly "global" car may be built in different countries, it would be made by the same processes and, quite possibly, involve similar marketing campaigns in different territories.

Purchasing, another important function in view of the fact that about 60 per cent of a car's value is comprised of components bought from outside sources, would also be given treatment as a single,

worldwide activity.

Lower costs, improved use of resources and faster development times have been the reasons behind globalisation. Combining international resources can let a multinational car company make the most efficient use of its skills. Linking stylists and development engineers can accelerate development programmes, reducing the "time to market" for a new model. By working internationally from the outset, a new car can, if necessary, be introduced in a global marketing blitz, maximising the impact and avoiding the staggered launches of the past.

But to reap the greatest benefits, globalisation requires a big upheaval in a company's structure. Most corporations will have subjected themselves to the consultants' rule over the years. But their internal organisation will probably say more about patchy organic growth and opportunistic acquisitions to expand rather than the thorough going rethink globalisation requires.

So in spite of the apparent advantages, not all the world's biggest carmakers have chosen to go "global". Ford and Volkswagen have been the two most active converts. Ford 2000, the name for the ambitious globalisation strategy unveiled by Mr Alex Trotman, its chairman, last year, has turned into a symbol of one carmaker's determination to adapt.

Ford's decision to tear up its geographical divisions and reorganise around five "vehicle centres" (VCs) marks the most radical attempt to adopt a global approach. The VCs, covering different types of car from small front-wheel-drive models to hefty pick-ups, have become almost independent corporate entities charged with a specific task on a worldwide basis.

VW has moved in a similar, but less radical, direction. Mr Ferdinand Piech, its chairman, has pushed through an ambitious strategy to use the large number of "platforms" on which its different models are made around the world. Although less ambitious

than Ford 2000, the VW group's approach is complicated by the fact that it involves integrating four different companies. And while VW and Audi are at least based in Germany, Seat and Skoda are both relatively recent acquisitions with headquarters abroad, complicating integration.

Mr Piech aims to reduce VW's 18-odd platforms to just four. These will form the foundation for all future models to be built by VW, Audi, Seat and Skoda. For example, the platform for the next generation Golf, Europe's best selling car, will be shared by the new Audi A3 hatchback and other group models. To confuse matters further, the European platforms will also be used, and, if necessary, modified slightly, by VW's free-standing manu-

facturing subsidiaries in south America, South Africa and China.

General Motors, Ford's bigger US rival, has gone about globalisation more cautiously. Instead of opting for an all-out reorganisation, it has devolved most of the responsibility for co-ordinating its international expansion to its Opel subsidiary in Germany. Although many of the Opel-originated or designed GM cars sold outside the US and Europe are badged as Chevrolets (the group's main US brand), Opel has to co-ordinate their development.

No other manufacturer has been as radical as Ford or VW. Japan's big carmakers have steered well clear of the management implications of globalisation. Toyota, Nissan and Honda now all have substantial production facilities outside their home

market. Yet in spite of devolving some design and product development functions to their new operations in the US, UK, and, in some cases, elsewhere, the buck stops firmly in Japan. This regional, rather than global, approach is reflected in the cars themselves, which are predominantly geared towards distinct markets, with little cross-fertilisation between the foreign factories and minimal flows of vehicles from one non-Japanese operation to another.

Fiat has taken a very different tack. Although appreciably smaller than Ford or VW, let alone GM or the main Japanese carmakers, it has been examining its structural options to reflect its strong international ambitions.

Cars built in Italy will continue to form the backbone of its product range, supplemented by selective sourcing from Poland and very limited imports from its big subsidiary in Brazil.

But next month will see the introduction of the group's Pallas "world car". The Pallas, which comprises three-and-five door hatchbacks, a saloon, estate and pick-up, marks Fiat's response to the challenge of globalisation by providing a sturdy but stylish car for motorists in industrialising countries.

To be launched in Brazil, the Pallas will eventually be produced in Argentina, Turkey, India, Morocco, and Poland. If Fiat's executives achieve their ambition of adding China to that list, the group could be building more than 900,000 Pallas a year by early next century.

Fiat's strategy requires none of the wrenching upheavals involved in Ford 2000 and entails the much more modest aim of building multinational teams for the Pallas. Its caution reflects the attitude of many motor industry bosses, who say Ford has failed to take account of the risks involved in convulsive change and will suffer as a result. Others, however, argue that hesitation today will only make the inevitable task of restructuring more difficult tomorrow.



Volkswagen's first factory in Brazil. Its activities began in 1953 and have gone from strength to strength since

# It has no wheels, no engine, and came out in 1905



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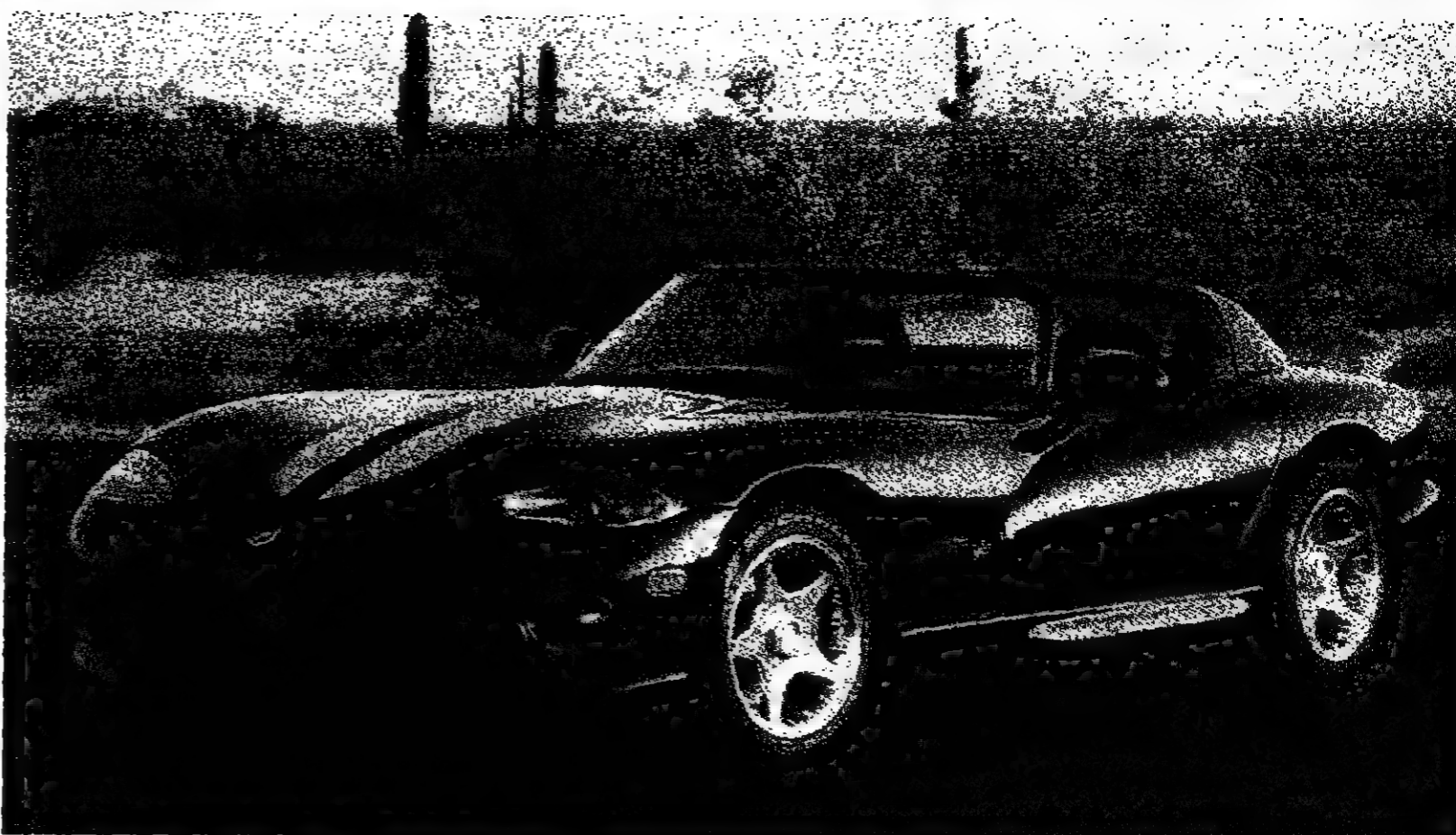
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Latest of first: the Ford model that is America's best-selling light truck. Output will increase this year



Sling in the tail? The likes of the Chrysler Viper are expensive. On average, new cars now cost the equivalent of 27 weeks of an average American's income

■ The US: by Richard Waters

## Light trucks leave cars standing

Detroit's most lucrative market will soon be the target of foreign manufacturers

It was the Year of the Truck.

While car sales in North America flagged in 1995, prompting manufacturers to instigate a new round of incentives late in the year to win back buyers, most makes of light trucks were driven off dealers' forecourts almost as fast as they arrived. Pick-up trucks, sport utilities and minivans are the new hot item.

And that, in turn, is good news for a resurgent Detroit.

Thanks in part to a 25 per cent tariff on imports, the big three US manufacturers dominate the light truck business. Some 86 per cent of new trucks sold in the US last year were produced by General Motors, Ford or Chrysler, compared with only 64 per cent of new cars. The higher prices – and profit margins – on trucks have made

this a profitable switch in consumer taste.

The growing popularity of the truck saved what otherwise would have been a poor year for the automobile industry in 1995. Light truck sales grew by 1 per cent last year, to 6.1m – at a time when car sales fell 3 per cent, to 8.7m.

All three US manufacturers had entered the year in optimistic mood, having just seen new vehicle sales in North America jump by 8 per cent during 1994, to 15.1m.

At that level, according to traditional industry thinking, sales were roughly in line with their long-term trend. With the economy continuing to expand at a steady, if unexciting, pace, they would surely continue to rise to a new cyclical peak.

It did not work out that way. During 1995, the number of light vehicles sold slipped back to around 14.8m. That played havoc with production schedules and inventory levels that had been designed with very different market conditions in mind.

It also left automobile industry economists scratching their heads in search of an explanation. Most economic indicators suggested that Americans should have bought more new vehicles, not fewer.

A number of possible explanations have been advanced. Among the most popular is that cars have simply become too expensive. According to Mr Jim Mateyka, a consultant at A. T. Kearney, there is "an affordability crisis" in the showroom. A decade and a half ago, the average new car price was equivalent to 18 weeks of the average American's income; now, it is 27 weeks.

Another possible reason is the aggressive use of cheap leases by the auto makers to sell new vehicles in the early 1990s. At that time, Detroit was trying hard to find creative new ways to keep its production lines rolling. One answer was the cheap two- and three-year lease, which quickly became one of the most popular ways of acquiring a new vehicle.

Many of those leases expired in 1995, with two results. A wave of two- and three-year-old cars came on to the market, prompting a boom in the second-hand car business. Also, the buyers who have enjoyed a cheap lease for the past three years have proved unwilling to pay the higher prices that Detroit is now trying to get for its vehicles.

At what should be a high point in their cyclical fortunes, these developments have created a curious sense of insecurity in the US auto industry. The carmakers have found that they had misjudged their customers – either by setting prices too high, or failing to spot changes in buying habits.

Detroit believes it is better prepared for 1996. Production plans have been set in the expectation that sales will edge back up to about 15m this year. Where possible, extra shifts have been added or capacity shifted to lift output of the most popular light trucks. And incentives have been lifted to tempt buyers back.

The all-new model of the Taurus, Ford's biggest-selling car, stands as a symbol of the tribulations that manufacturers have faced in recent months. Though lavishly praised by reviewers on its launch last autumn and pitched only slightly above the list price of the old Taurus, the new model has got off to a slow start. In part, says Ford, that is because customers have become accustomed to big discounts in the showroom, and are less willing to pay up for a higher-quality product.

In tacit recognition of this, Ford earlier this year came up with a stripped-down version of the new Taurus, at a lower price. While weaker than 1994, though, it would be wrong to conclude that 1995 was a poor year for Detroit. Between them, the Big Three still managed to generate profits after tax of \$8.1bn from their automotive operations (the year before, they had made \$9.5bn).

Non-US manufacturers, on the other hand, have continued

to struggle in the North American market. The dollar, while rebounding in recent months, remains far below its yen value of the 1980s, when Japanese automakers were in the ascendant. That has made it hard for importers to remain competitive. Most US cars are now priced well below comparably-equipped Japanese vehicles.

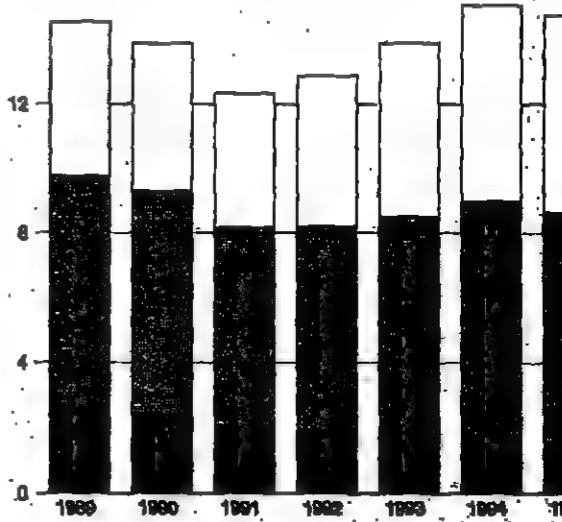
Through the use of hefty incentives, the Japanese manufacturers have at least managed to hold on to their position in the North American market. Led by Toyota, they made around 23 per cent of the new vehicles sold last year – in line with the previous two years, and only 3 percentage points below their share in 1991.

By shifting production to new US assembly plants, and buying a larger share of parts there, foreign manufacturers are slowly reducing this pricing disadvantage. According to the Association of International Automobile Manufacturers, production volumes in foreign-owned plants in the US

### US cars and light trucks

Total sales (million units)

□ Light truck ■ Car imports ■ Domestic cars



Source: Automotive News Data Center

jumped fourfold in the decade to 1994, accounting for 46 per cent of vehicles sold by foreign companies in that year.

The next wave of foreign auto plants is aimed squarely at Detroit's most lucrative market: light trucks. Several manufacturers aim to build

sport utilities in the US. And, in an assault on a market that US manufacturers have traditionally had to themselves, Toyota recently announced plans to make a full-sized pick-up truck, complete with a US-style V8 engine, at a new plant in Indiana.

■ Western Europe: by John Griffiths

## Growth runs into a jam

Can collaborative deals help solve the problem of too many makers and too little demand?

A nasty-looking traffic jam is building up in Western Europe.

In new car sales terms, the traffic lights appear stuck on red: neither the European Automobile Manufacturers' Association (ACEA) nor independent forecasters like the Economist Intelligence Unit, expect more than 2.4 per cent growth this year. In what is now a patently almost mature market, no sharp further growth can be expected in the foreseeable future.

However, more cars continue to stream towards the marketplace, not just from long-established, indigenous European producers, but from a growing number of outsiders: the Japanese "transplant" factories of the UK and Spain and, more recently, surging imports from South Korea.

Attempts to woo reluctant buyers, and thus keep production lines flowing, have led to heavy discounting and a plethora of other incentives.

And such is the importance of the motor industry to West European economies – typically accounting for one in 10 jobs in countries such as France and Germany – that governments have thrown hefty financial resources into boosting production, albeit from behind a veil of environmental concern. France and Spain each provide substantial financial inducements for drivers to scrap old, polluting cars for "new", environmentally "clean" ones. A campaign for similar incentives is being waged – so far without success – by the industry in the UK.

Yet despite all this activity, overcapacity still hovers around 25-30 per cent. The region has too many car plants; and, arguably, too many car companies, making top-small profits. Something, surely, has got to give.

Cost-saving collaboration is making it financially easier for manufacturers seeking to secure a stake in some of the growing number of niches into which the European car market is fragmenting. Volkswagen and Ford have pooled

resources to bring to the market a multipurpose vehicle (MPV), named respectively as the VW Sharan and Ford Galaxy, but essentially the same behind the badge.

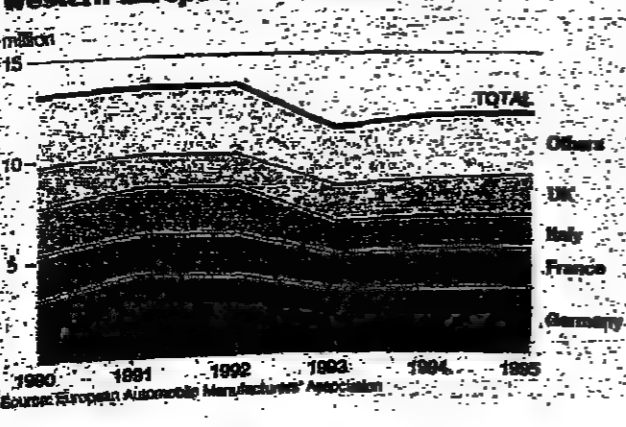
In similar vein, Volvo of Sweden and Mitsubishi of Japan have collaborated in new production facilities at Volvo's NedCar plant in Holland to produce Volvo and Mitsubishi versions of a new medium-sized car.

Even so, the financial pressures on Europe's smaller car companies became obvious last month when Volvo reported another plunge into losses in last year's final quarter. This reinforced the view of analysts that Volvo could ill afford last year's decision not to proceed with a merger with Renault of France to enhance its resources and provide economies of scale.

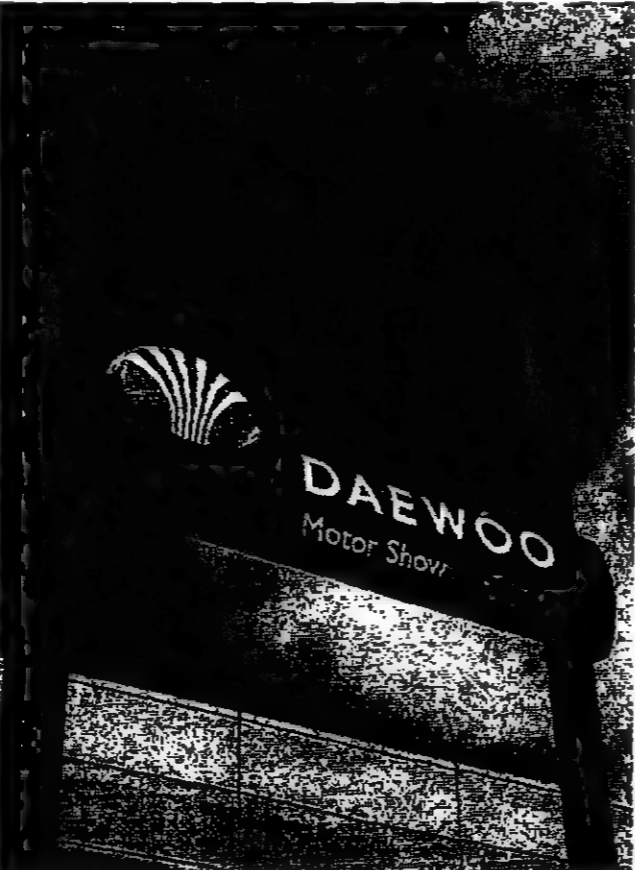
Ford's ill-fated dalliance with Fiat of Italy in the 1980s also showed how reluctant Europe's car companies are to yield control to a partner, and how wary governments can be about perceived threats to national "flagship" industries. In the absence of such rationalisation, however, the prospect is for a relentless tightening of the competitive screws, with little prospect of price-raising.

For much of the 1980s, debate about car pricing within Europe was conducted in terms of comparisons between national markets. With the European Commission now publishing regular pricing comparisons, it is becoming increasingly accepted, even by the more strident consumer groups, that pricing disparities are mainly the result of differential tax regimes and currency shifts.

### Western Europe new car sales



Source: European Automobile Manufacturers Association



Sign of the times: South Korean imports add to the over-supply problem

Ominously, however, as North America has become a mass tourism market for Europeans, consumer eyes are turning to the much lower price levels prevailing in the US and Canada and looking for a reason. The questioning is starting to go beyond consumer groups. The UK's franchised dealers' association has just sent a delegation to North America in search of its own

answers. It is unlikely to diminish consumer hostility that there are legitimate reasons for the gap, stemming not least from the economies of scale enjoyed by a North American industry which has many fewer companies than Europe.

The opacity of transfer pricing and other operating elements of big motor industry multinationals can create scepticism about underlying profitability levels. Nevertheless, the sharply plunging profitability of some of Europe's leading carmakers like Ford and General Motors' Vauxhall subsidiary – the latter saw pre-tax profits melt to \$3m last year from 1994's level of nearly \$20m – appears to underline the point that the squeeze is not a fabrication.

It was felt deeply last year because Western Europe's market failed to live up to even the industry's expectations. In 1994, sales rose by 6.1 per cent and it was widely expected in the industry that growth close to this level might be sustained



Daewoo on the chair: The Nexo and the Espero models on display at a Maldives showroom

during last year. Instead, sales rose by just 0.6 per cent to 12m, well below the record 13.5m of 1992, when much of Europe was replacing over-aged fleets kept going during recession.

Yet manufacturers remained slow to apply the production brakes. As a result output reached 12.7m last year to add to already excessive stocks, according to provisional estimates from market monitors Automotive Industry Data.

Thus heavy discounting and other sales incentives appear set to be an ineradicable part of the marketing scene for as far as the industry cares to look. As the pressures to keep production lines flowing mount, it cannot be certain that some of the big volume producers will be able to keep to their pledges to stop doing the deeply discounted fleet deals that have patently upset many private motorists.

ACEA itself blames high and increasing unemployment across Europe, weak economic

growth and high debt levels in many EU countries as being mainly behind the malaise. Its hopes that these negative factors would alleviate this year were given a boost last month

when statistics showed a 6 per cent sales rise in January.

According to EIU forecasts, a market rise of around 2.5 per cent this year will be followed by one of less than 2 per cent

in 1997 – forecasts which assume that initiatives like the current French "Juppe" incentive to scrap cars over eight years old are renewed after their expiry dates this year.

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## IV WORLD MOTOR INDUSTRY

■ Brazil and Argentina: by Jonathan Wheatley and David Pilling

## Two hoping to make the fast track

For manufacturers, cross-border integration is becoming more attractive

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■ Mexico: by Daniel Dornbey

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Domestic sales have plunged 65 per cent, from 416,000 units sold in 1994 to 143,500 last year, and most manufacturers expect that three or four years will pass before 1994 levels are regained once more.

But the effects of the current crunch have not been spread evenly among the five main companies - the US Big Three, Volkswagen and Nissan.

"Volkswagen and Nissan have suffered greatly because of their penetration of their vehicles in the lower end of the market, which has been especially hurt by the credit crunch this year," says Ms Kimberly Smith, an analyst at JD Power in Detroit.

Mexico's banking crisis, which also deepened after the peso's fall, has meant that the country's banks have carried out little or no lending during the past year. At the same time, interest rates which stand at twice the level of their United States counterparts in real terms have deterred even those who can get financing.

The car companies have switched production dramatically around to exports, increasing foreign sales to 584,700 units, 21 per cent up on 1994, but still not enough to compensate for the slump in Mexican demand. In any case, exports are markedly less profitable than domestic sales.

"All your plans, strategies go out the window," says Mr Gary Cowger, the head of General Motors' operations in the country in remembering the first, uncertain days after

the devaluation. In the end, the car manufacturers' response to the crisis was largely fashioned by Nafta, which has reduced tariffs on cars with a high level of content from participating countries, although its provisions will, in fact, not come fully into force until 2000.

"The ability of Nafta is the ability to rationalise. You are not building large amounts (of types of vehicles) in small volumes," said Mr Cowger.

Now, the companies have not just concentrated on building large volumes of a few vehicles for international markets - overwhelmingly for the US - but also changed production processes.

"The (worldwide) trend is to look for more local suppliers and local based international suppliers. Following the devaluation we have even more reason to use components with peso cost," said Mr Philippe Mellier, chief executive of Ford de México, who points to the manufacture of engines in Chihuahua in Northern Mexico for domestic assembly and for export as a chief indicator of change.

■ Globalisation: by Haig Simonian

## Going global is nothing new

Many carmakers have chosen to avoid the problems of worldwide manufacturing

Forty years ago, the great majority of the new cars bought in Japan were made by manufacturers from abroad. At much the same time, Volkswagen inaugurated its first factory in Brazil. And as early as 1911, Ford opened its first foreign production site when it started building cars in the UK.

Globalisation, it seems, is nothing new to the world's carmakers. But while many manufacturers have expanded far beyond their original homes, it has recently become necessary to distinguish between car companies which are merely "multinational" and those with "global" pretensions.

The difference is one of philosophy rather than semantics. Being "global" means not just building cars from São Paulo to Shanghai, but adopting an integrated approach to how that far-flung empire should be run.

A "global" car company, for example, would centrally plan its entire model range, which would be built on a limited number of basic "platforms". Although the metal skins attached to them may differ to suit local tastes, the basics, such as chassis, width and key engineering details like the location of the central pillar, would be identical.

Globalisation, in the sense of integration, embraces manufacturing and marketing as much as design and development. Although a truly "global" car may be built in different countries, it would be made by the same processes and, quite possibly, involve similar marketing campaigns in different territories.

Purchasing, another important function in view of the fact that about 60 per cent of a car's value is comprised of components bought from outside sources, would also be given treatment as a single,

worldwide activity.

Lower costs, improved use of resources and faster development times have been the reasons behind globalisation. Combining international resources can be a relatively easy task for a company with the most efficient use of its skills.

Linking stylists and development engineers can accelerate development programmes, reducing the "time to market" for a new model. By working internationally from the outset, a new car can, if necessary, be introduced in a global marketing blitz, maximising the impact and avoiding the staggered launches of the past.

But to reap the greatest benefits, globalisation requires a big upheaval in a company's structure. Most corporations will have subjected themselves to the consultants' rule over the years. But their internal organisation will probably say more about patchy organic growth and opportunistic acquisitions to expand rather than the thorough going rethink globalisation requires.

So in spite of the apparent advantages, not all the world's biggest carmakers have chosen to go "global". Ford and Volkswagen have been the two most active converts. Ford 2000, the name for the ambitious globalisation strategy unveiled by Mr Alex Trotman, its chairman, last year, has turned into a symbol of one carmaker's determination to adapt.

Ford's decision to tear up its geographical divisions and reorganise around five "vehicle centres" (VCs) marks the most radical attempt to adopt a global approach. The VCs, covering different types of car from small front-wheel-drive models to hefty pick-ups, have become almost independent corporate entities charged with a specific task on a worldwide basis.

VW has moved in a similar, but less radical, direction. Mr Ferdinand Piëch, its chairman, has pushed through an ambitious strategy to axe the large number of "platforms" on which its different models are made around the world.

Although less ambitious

than Ford 2000, the VW group's approach is complicated by the fact that it involves integrating four different companies. And while VW and Audi are at least based in Germany, Seat and Skoda are both relatively recent acquisitions with headquarters abroad, complicating integration.

Mr Piëch aims to reduce VW's 16-odd platforms to just four. These will form the foundation for all future models to be built by VW, Audi, Seat and Skoda. For example, the platform for the next generation Golf, Europe's best selling car, will be shared by the new Audi A3 hatchback and other group models. To confuse matters further, the European platform will also be used, and, if necessary, modified slightly, by VW's free-standing manu-

facturing subsidiaries in South America, South Africa and China.

General Motors, Ford's bigger US rival, has gone about globalisation more cautiously. Instead of opting for an all-out reorganisation, it has devolved most of the responsibility for co-ordinating its international expansion to its Opel subsidiary in Germany. Although many of the Opel-originated or designed GM cars sold outside the US and Europe are badged as Chevrolets (the group's main US brand), Opel has to co-ordinate their development.

No other manufacturer has been as radical as Ford or VW. Japan's big carmakers have shied clear of the management and organisational implications of globalisation. Toyota, Nissan and Honda now all have substantial production facilities outside their home

market. Yet in spite of devolving some design and product development functions to their new operations in the US, UK, and, in some cases, elsewhere, the buck stops firmly in Japan. This regional, rather than global, approach is reflected in the cars themselves, which are predominantly geared towards distinct markets, with little cross-fertilisation between the foreign factories and minimal flows of vehicles from one non-Japanese operation to another.

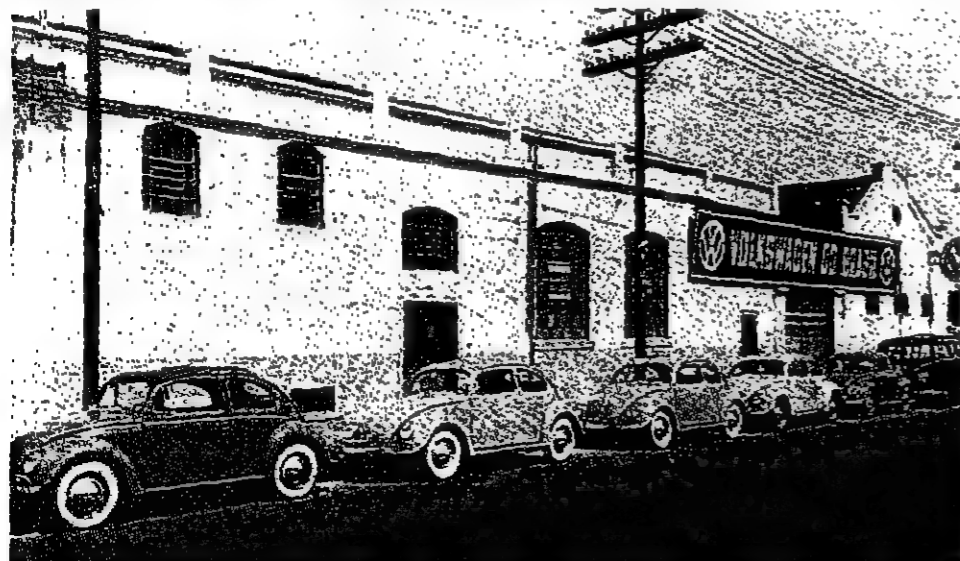
Fiat has taken a very different tack. Although appreciably smaller than Ford or VW, let alone GM or the main Japanese carmakers, it has been examining its structural options to reflect its strong international ambitions.

Cars built in Italy will continue to form the backbone of its product range, supplemented by selective sourcing from Poland and very limited imports from its big subsidiary in Brazil.

But next month will see the introduction of the group's Palio "world car". The Palio, which comprises three-and-five door hatchbacks, a saloon, estate and pick-up, marks Fiat's response to the challenge of globalisation by providing a sturdy but stylish car for motorists in industrialising countries.

To be launched in Brazil, the Palio will eventually be produced in Argentina, Turkey, India, Morocco, and Poland. If Fiat's executives achieve their ambition of adding China to that list, the group could be building more than 900,000 Palios a year by early next century.

Fiat's strategy requires none of the wrenching upheavals involved in Ford 2000 and entails the much more modest aim of building multinational teams for the Palio. Its caution reflects the attitude of many motor industry bosses, who say Ford has failed to take account of the risks involved in convulsive change and will suffer as a result. Others, however, argue that hesitation today will only make the inevitable task of restructuring more difficult tomorrow.



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Japan: by Michio Nakamoto

# Marshalling resources for a new model army

Demand for recreational vehicles is helping to rebuild confidence

Along Honda's highly automated production line at its factory in Suzuka, south-west of Tokyo, no fewer than 500 robots have been busy these past few weeks fitting seats, installing doors and screwing bolts on the company's new estate car that went on sale in Japan last month.

The Japanese car company, which has long been a bigger operator overseas than in its own country, is moving swiftly to bring out several new models this year, in order to capitalise on Japanese consumers' strong demand for sports utilities, estate cars and other non-conventional vehicles.

The rush of activity at Honda this year mirrors a trend throughout the Japanese vehicle industry, as it approaches the end of its darkest period since the war.

After years of being on the defensive, Japanese carmakers are marshalling their resources and charging ahead to exploit a much improved trading environment.

The long, gloomy spell of falling production and dismal sales at home is being overtaken by a period of buoyant replacement demand that is supported by the many consumers who bought cars during the bubble economy years.

The average replacement cycle in Japan is about five years, and 1996 happens to fall right in the middle of what is expected to be three years of particularly strong demand.

Vehicle sales last peaked in Japan between 1990 and 1992, just before the worst effects of Japan's asset deflation set in, and, on this basis, the industry is likely to enjoy strong replacement demand in the next year or two, says Mr Koji Endo, analyst at Lehman Brothers in a recent report.

As in other developed markets, recreational vehicles have been doing particularly well. Honda's CR-V, a sport utility vehicle, for example has been so popular that the company



A very British coupe Honda has introduced a European version of its Civic model

has doubled production from 280 units a day when it began selling the cars last October to 560 units by February.

Meanwhile, the yen's weakness since last summer has Japanese carmakers sighing with relief. "When the exchange rate hit ¥79 to the dollar, we were really concerned about the future," concedes Mr Toshiaki Taguchi, a director of Toyota.

With the yen now trading at around ¥105 to the dollar, Japanese carmakers can make fair profits on their exports. Mr

Taguchi notes that Toyota's exports are profitable at an exchange rate of ¥100 to the dollar but some analysts believe that Japanese carmakers can make profits on their exports at ¥96 to the dollar.

A third factor that is helping to improve the climate for Japanese makers, is the cost-cutting they embarked on to offset falling production at home and stem the loss of overseas competitiveness as a result of the stronger Yen.

Japanese car companies and

their parts suppliers have worked strenuously to cut out development and manufacturing costs, not only to offer increasingly tight-fisted consumers more value-for-money but also to avoid having to take the axe to their work-

force. The benefits of this cost-cutting have already been seen in the companies' financial results of the past year or two. But "in the next few years to 1997 there will be many new models coming out which reflect the impact of cost-cut-

ting from the design stage," notes Mr Takaki Nakanishi, industry analyst at Merrill Lynch in Tokyo.

All these factors have helped to rebuild confidence among Japanese carmakers. During the long years of depressed sales, they were surprised to discover that even their good cars did not necessarily sell well, points out Toyota's Mr Taguchi.

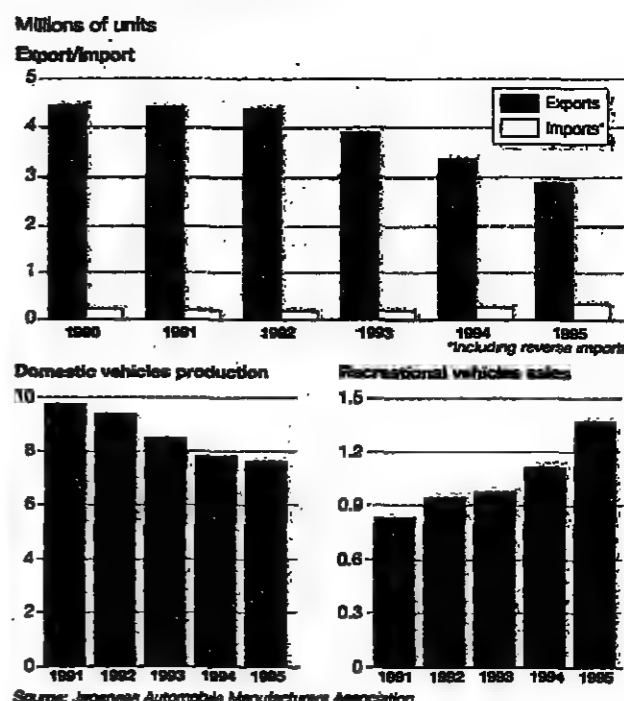
Now that they have been bringing out cars that are more in tune with consumer needs, "there is a greater feeling that

if we make products that meet consumer demand, they will sell," he says.

However, Japanese carmakers take a sober view of the improvement in their fortunes. The current upturn is being seen not as full-scale recovery but as a short-lived respite during which they must strengthen their ability to withstand the next round of adversity.

At home, this has meant restructuring their manufacturing operations so that they could be profitable even at

## Japan: motor industry



reduced production levels. The industry, tired of being at the mercy of foreign exchange fluctuations and trade pressure, has committed itself to building up production overseas.

As a result, domestic production has fallen by more than 2m units in the past five years and there is little hope that the trend can be reversed. Instead, Japanese carmakers have been focusing their efforts on how to remain profitable even with reduced output.

Honda, for example, says production, which peaked at nearly 1.4m units at the turn of the decade, is now down to 975,000 units last year. But, thanks to cost-cutting measures and with most of their 2,500 part-time workers no longer on the payroll, Honda is now profitable with a production level of 1m units.

Overseas, Japanese carmakers are stepping up local development, as well as production and procurement, in order to improve their competitiveness.

Mitsubishi Motors, which has a manufacturing facility in Illinois where it makes cars both for itself and for Chrysler,

announced last month that it is setting up an R&D centre in the US.

Honda is also increasing local production in North America from 658,995 units last year to 720,000. The local content ratio for its 1996 Civic was 92 per cent, compared with 82 per cent for the previous model.

Meanwhile in Europe, Mitsubishi has started turning out cars from its joint production facility with Volvo in the Netherlands, while Honda is boosting production this year with the introduction of the European Civic model, adding to overall Japanese local production in the region.

Toyota will take on the Big Three in the US with the introduction of the RAV 4, its popular RV, and the start of production of a pick up truck in Indiana. Honda is also considering the exporting its CR-V to North America.

Having rebuilt strength and confidence, Japanese carmakers are gearing up to go on the offensive. When they do so, their achievements over the past few years will be brought to the real test.

Eastern Europe: by Kevin Done

## Western recovery fuels demand

Central Europe's markets and industry are being integrated with the rest of the world

Demand for new cars grew strongly in eastern Europe last year, as the economic recovery in the region accelerated. Car production in seven countries of central Europe rose by an estimated 17 per cent helped by the higher domestic demand and by rising exports to western Europe.

The future prospects for the motor industry in the region have also been strengthened by a series of new investments announced by vehicle makers from the US, Asia and western Europe.

Sales of new cars in eastern Europe "exceeded expectations" in 1995 according to Ms Carol Thomas, automotive analyst at DRI Europe, rising by an estimated 8 per cent to 1.25m.

Demand in the seven countries of central Europe measured by DRI rose by 7.3 per cent to around 604,000 new cars, while sales in Russia and Ukraine increased by 9 per cent to 649,000 according to the group's latest World Car Industry Forecast Report.

In central Europe, demand fell in only two of the seven markets. In Hungary, the impact of an 8 per cent import surcharge and other tax increases was compounded by a government austerity package, while sales in Bulgaria fell for the second year in succession following a series of prohibitive tax increases implemented in 1994.

Six years after the fall of communism the world's leading carmakers and automotive components suppliers are growing in confidence about the outlook for central Europe.

Prospects for strong growth are good with GDP (gross domestic product) increases of 5 to 7 per cent a year becoming commonplace from Poland to Slovakia and with inflation under control in much of the region and currencies stable or appreciating.

New car sales are forecast to rise by at least 10 per cent a year for the rest of the decade to more than 1m in 2000, compared with forecast growth of 2 to 4 per cent a year in west European new car markets.

Car production in central Europe, supported both by



Uplifting experience: output of the Renault Clio is rising in Slovenia

the vacuum left by the demise of the old Wartburg factory. In similar fashion, Volkswagen replaced the old Trabant operation at Zwickau.

General Motors is also poised to make a significant investment in Poland, the biggest market in central Europe, where it has a shortlist of four sites in southern Poland for its first integrated car manufacturing plant in the region.

It is planning to invest around DM500m in the first stage of the project aimed at creating an initial capacity to build 70,000 to 100,000 cars a year. Production - most probably of a re-engineered, low-cost

version of its current Opel/Vauxhall Astra small family car - is due to start in the spring of 1998.

Output is rising substantially at several existing operations in the region. Fiat's car output in Poland, where it completed the takeover of FSM, the Polish state-owned carmaker in 1993, rose by 10.9 per cent last year to 278,200, its highest ever level. Some 156,900 units, or 56.4 per cent of Fiat Auto Poland's total production, were exported, chiefly to west European markets. Poland is Fiat's only production location for the Cinquecento, its smallest car.

In the Czech Republic, Skoda, the 70 per cent owned Volkswagen subsidiary, is

investing heavily in preparation for the launch of a second model range in the late autumn on the way to virtually doubling its production capacity by the end of the decade to more than 350,000.

In Slovenia, Revco which has been 54 per cent controlled by Renault, the French carmaker, since 1992, increased output by 18 per cent last year to 87,400, as it continued to recover strongly from the deep recession in the west European car market in 1993. Renault exports more than 85 per cent of the output from its Slovenian plant at Novo Mesto, chiefly to France and Italy.

The most audacious investment in the auto industry in eastern Europe is being taken by a newcomer, however, Daewoo of South Korea, which has chosen to make the region the centrepiece of its vehicle manufacturing operations for the whole of Europe, east and west.

In less than two years it has taken control of a series of beleaguered former state-owned vehicle makers in Romania (Oltcit), the Czech Republic (Avia) and Poland (FS Lublin and FSO), and it has built a car plant in Uzbekistan.

It is promising to invest \$1.1bn at FSO, \$340m at FS Lublin and \$900m at Rodae in Romania, with a total capacity to produce around 500,000 vehicles a year across the full range of cars, vans and trucks and with engines, gearboxes and components exchanged between the plants.

"These are the smallest figures for our expenses for the modernisation and development of those factories. It would be difficult today to estimate the maximum investment of Daewoo in the Polish car industry," says Mr Yoo Choon-Sik, president of Daewoo Motor Poland.

Western producers believe that Daewoo has dangerously underestimated the enormous challenge of transforming the outdated, monolithic operations of former state-owned carmakers like FSO in Warsaw. But the South Koreans are unabashed. The first kit assembly of Daewoo Nexia/Cielo cars began in both Lublin, Poland and in Craiova, Romania in January this year.

"DRI figures for central Europe include Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Eastern Europe includes these seven countries together with Russia and Ukraine."

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## VI WORLD MOTOR INDUSTRY



Santana 2000: Volkswagen is in ventures with companies given state priority in the five-year plan

China: by Tony Walker

## Teething troubles slow gears of growth

The aim is not just self-sufficiency, but exporting 10 per cent of production by 2010

China's automotive sector is experiencing more than its share of teething troubles as it strives to transform itself into one of the country's so-called modern "pillar" industries.

A combination of a credit squeeze, competition from imports, difficulties in rationalising a chaotic components sector, and inadequate infrastructure to support a growing vehicle population are all proving a drag on the industry after heady growth forecasts of the 1993-94 period.

Growth in output of vehicles in 1995 slowed to 5 per cent, or about 1.5m units for the year, of which some 20 per cent were passenger cars.

This compared with the virtual doubling of vehicle production between 1991-94.

The slump in demand obliged domestic producers to lower prices drastically to reduce stocks. Imports were down by about 44 per cent last

year, although large numbers of vehicles continued to be smuggled into China.

China has been gradually reducing its dependence on imports. In 1995, 50 per cent of all cars sold in China were imported. But last year the figure was down to less than 10 per cent. Under an auto industry policy unveiled in 1994, China plans not merely to be self-sufficient, but to have grown so as to be exporting about 10 per cent of its production by 2010.

The plan, known as the "Policy for China Automotive Industry Enterprises", aims to foster the establishment of three or four "large scale" vehicle-producing conglomerates, backed by a vibrant automotive components sector.

It wants to encourage economies of scale, and to rationalise an industry which presently includes 120-130 vehicle-makers, many of them tiny backyard operators.

China has also frozen approvals for new entrants to passenger car manufacturing until 1997, although there is some elasticity in this policy. General Motors, for example, was recently given the green

light for a \$1bn project to Shanghai to produce upscale medium sized cars and minivans.

In China's Ninth Five-Year Plan, eight automotive companies are being given priority. However, the eventual aim is to encourage the consolidation of individual producers into larger industry groups.

The eight companies are: First Automobile Works in Changchun, Changchun Volkswagen (a venture between VW and the First Automobile Works), the Shanghai-Volkswagen Automobile Corporation, Guangzhou-Peugeot Automobile, Beijing-Jeep, Wuhan Aelius-Citroen Automobile Corporation, Tianjin-Delhaute Automobile, Chang'an Suzuki Automobile and Guizhou Sky-lark Automobile.

But the main companies are clearly FAW in Changchun, the Shanghai Automotive Industry Corporation and Second Automobile Works in Hubei.

These will almost certainly form the nucleus of a reconstituted industry. FAW, for example, recently paid \$7m for a controlling stake in Jinbei Automotive Corp of Shenyang.

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THE TWIN-CYLINDER C.H.P. WAGONETTE

## Going quite a lick at twelve miles per hour on the level

In January, the UK celebrated the birth of its motor industry 100 years ago. Just two years after the first cars were built in Germany, John Griffiths writes.

The "Great Horseless Carriage Company" was Britain's pioneer company, in that it was formed specifically to build vehicles in series production.

In this case, it was Daimler

vehicles under licence at workshops in Coventry. Production did not start until 1897, however. The Coventry-built Daimlers were preceded by the Landrovers. These were designed and built by three British brothers. But although it was the first all-British car to run on the roads, Landrovers were not built systematically for sale until some time later.

Although the Coventry company took the Daimler name and the inventor Gottlieb Daimler was a Board member, there were no financial links between the English and German companies.

The Coventry Daimler company had a history as long and turbulent as any in the UK motor industry. An early high point was its

delivery of the first royal car to the future Edward VII in 1900. It finally lost its independence in 1960 when, reduced to building very low volumes of limousines, it was taken over by Jaguar.

The production of limousines continued for a period under Jaguar's ownership.

But increasingly the famous slatted radiator became simply

a badge-engineered variation of Jaguar's own cars.

This year some 200 limited-edition "centenary" Daimlers were produced at Jaguar's Browns Lane factory near Birmingham.

But again they were luxuriously-equipped Jaguar variants.

And as for Jaguar, it is these days under the ownership of Ford of the US.

Jinbei has been producing small trucks with GM and also has a licensing agreement with Toyota to assemble Hiace vehicles.

The Japanese company is focusing its attention, however, on its relationship with Tianjin Automotive Industrial Corporation with whom it has been in talks on producing car

engines. It wants eventually to join the Tianjin company in the production of small- to medium-sized cars like Corolla or Corona.

Mr He Guangyuan, the minister of machinery industry, said last month China would earmark Yn279.7bn (\$33.7bn) under its Ninth Five-Year Plan to achieve ambitious production targets.

China aims to produce 1.3m passenger sedans and 1.4m buses and trucks annually by the year 2000.

About two-thirds of new investment is to come from the central government and local authorities.

Foreign investors would be expected to contribute the rest. Judging by enthusiasm among

international automotive companies for the China market, Beijing's expectations are not unreasonable.

An indication of the strong desire of foreign companies to become involved in co-production was Ford's decision last year to purchase a 20 per cent stake in Jiangling Motors, a truck manufacturer in southern Jiangxi province, when the company floated B-shares (shares reserved for foreign investors) on the local stock market.

Itcho and Isuzu of Japan used a similar approach to gaining a foothold in Chinese vehicle manufacturing when they secured a 36 per cent stake in the Beijing Lightbus company through the purchase

of "legal person" shares (shares held by institutions). But the authorities are not entirely comfortable with such deals which tend to fall outside established investment guidelines.

China's investment in its automotive industry over the next five years includes some Yn55bn earmarked for the components sector, according to Mr Zhang Xiaoyi, the director of the department of automotive industry in the ministry of machinery industry. This figure compares with a mere Yn7.63bn between 1991-1995.

China has set as a target more than 60 per cent of car parts and 80 per cent of parts for light trucks to be made

locally by the end of 1997. By the end of the century China aims to have a network of 5-10 internationally competitive parts manufacturers.

At the present time, China's components sector is highly fragmented. It has some 4,600 components makers across the country, and most of them are tiny. Many of these will go out of business under the new policy.

The ministry of machinery industry has released a list of 300 companies making key components which will be eligible for policy loans and preferential policies.

Foreign investment in these enterprises will be encouraged. Gradually, China's automotive sector is taking shape.

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India: by Mark Nicholson

## A new generation hits the road

Foreign carmakers are queueing to enter the opened market in the next 18 months

Today's aspirational car sticker of choice in India reads not "My Second Car is a...", but rather "My Next Car is a...". Except, that is, for those Indian motorists who have already purchased one of the new generation of vehicles now starting to appear on the country's pot-holed, chaotic and already crowded roads.

The Indian motorist of the sixties and seventies was limited largely to the bulky and venerable Hindustan Motors' Ambassador, based on a 1960s Morris Oxford, and Premier Automobiles' Padmini, a dated Fiat design. After 1994, came the luxury of a choice from a small range of Maruti, the 800cc and 1,000cc cars produced by the Suzuki-Indian government 50-50 joint venture. Maruti quickly captured more than 70 per cent of India's car market, a share it retains.

But with these carmakers' monopolies ended by the relaxation in 1991 of industrial licensing under India's economic reforms, choice in the nineties is set to explode. A queue of foreign carmakers have either created or expanded joint ventures with Indian partners to enter the market with new vehicles in the next year to 18 months. One South Korean carmaker Hyundai, has announced plans for a 100 per cent owned \$700m-plus manufacturing plant. Another South Korean group, Daewoo, has already begun, having already secured 100,000 orders for its Cielo model made in a joint venture with Indian commercial vehicle-maker DCM. The Cielo hit India's pot-holed roads late last year.

Local manufacturers are following suit. Maruti is in the throes of finalising plans to raise its own annual output by 100,000 cars to well above 300,000. Local vehicle-maker Telco, part of the Tata business

house, is, meanwhile, developing its own indigenous small car to compete with the smaller, best-selling Maruti 800. Bajaj, the country's biggest maker of scooters and three-wheelers, is talking with several foreign carmakers to join the fray with its own small car.

Competition in the Indian market has suddenly become fast and furious, aided by the reduction in last year's budget of excise duty on passenger cars to 40 per cent from 55 per cent and cuts in duty on car components. The question is, can all the new ventures survive, let alone flourish? "Nobody knows," says Mr Keshub Mahindra, chairman of Mahindra and Mahindra, which has tied up with Ford. "Everybody's guessing."

Recent car sales have certainly been strong, rising from average annual growth of around 14 per cent in the early 1990s to 57 per cent in 1995. Car sales have risen from 176,666 in 1990 to 250,832 in 1994-95 and are expected to surpass 300,000 this year. By most estimates, vehicle sales in 2000, will top 800,000 and may reach 1m cars. Less clear, however, is how particular market segments will fare. And here different manufacturers are placing quite distinct bets.

For most of the fresh foreign Indian joint ventures, the general bet is that Indian motorists want to trade up from their Maruti or Ambassador, and can afford to. This is the logic behind most ventures announced over the last year, which if all come to fruition would increase car capacity by more than 800,000 cars by 2000.

These are:  
● between Mahindra and Mahindra, the Indian vehicle maker, and Mercedes to produce 20,000 Mercedes E-series cars a year, already launched from M&M's Pune plant.  
● another M&M tie-up, with Ford, to produce 25,000 Escorts and 100,000 Fiestas by 1996 and 1998 respectively from plants in Pune and a new greenfield factory in Tamil Nadu;  
● between Premier Auto-

mobiles and Peugeot to produce 60,000 Peugeot 205s a year from PAL's new Thane plant in Maharashtra by this year.

● between PAL and Fiat to produce 20,000 Uno models, due to go on sale later this year from PAL's plant outside Bombay;

● between Hindustan Motors and GM to produce 25,000 Opel Astras a year from a new plant in Gujarat;

● between SIEL, an Indian engineering group, and Honda to make Civic cars from a plant in Uttar Pradesh by next year.

● and a licensing agreement between Hindustan Motors and Mitsubishi of Japan to make up to 30,000 Lancer cars a year from late next year.

The closest any foreign carmaker is coming to challenging Maruti's domination of the cheap, small car segment is Fiat which has aggressively priced its Uno at around Rs300,000, where it is competing directly with Maruti's Zen, the Suzuki Alto in Europe. The biggest challenge to Maruti, which says it could be selling 450,000 cars by 2000, and 60 per cent of these in the 800cc category, could be home-grown. Mr Ratan Tata, chairman of Telco, has said the company's new and home-designed and developed small car, will compete directly with the smallest Maruti in price and features. He also says the company expects to be manufacturing 275,000 small cars by 2000.

Bajaj, too, which dominates the huge Indian market for two and three-wheelers, is eyeing the possibility of entering the smallest car segment. A great advantage for both Telco and Bajaj would be existing sales and dealer networks, along with established links with local ancillary suppliers. This makes possible the highly competitive pricing which, it is assumed, would remain critical to success at the lower end of the Indian market.

The battle for India's motorists has thus begun. By the end of this year there will be 20 models on the roads, against 12 a year ago. By 2000, industry estimates suggest there may be a further 30 models on India's clogged city streets. And nowhere to park.

Few foreign newcomers, though, are prepared directly to take on Maruti's dominance

CURRENCIES AND MONEY

MARKETS REPORT

# Lira gains on hopes of a fall in interest rates

By Philip Gawth

The Italian lira yesterday rallied to a thirteen month high on the foreign exchanges, helped by a bank performance from the bond market and expectations that interest rates will soon be cut.

The lira's strong showing overshadowed the Spanish peseta which was slightly weaker in the afternoon of the weekend elections which saw the Socialist vote from office after 13 years. The peseta finished in London at Ptas6.75 against the D-Mark, from Ptas6.90 on Friday, but off an intra-day low of Ptas6.21.

The Australian dollar was little changed following the electoral defeat of the Labor party, which also ran the country for 13 years. It finished at 75.50 US cents, from 75.15 cents on Friday.

The lira closed at L1,050, from L1,058. Analysts said that from a technical viewpoint, a sustained move below L1,050 could bring L1,030 into line as the next target.

The dollar had a fairly uneventful day, closing virtually unchanged against the D-Mark at DM1.4758. Against the yen it was slightly weaker at Y105.14, from Y105.45.

The pound had a quiet day, finishing little changed at DM2.2553 and \$1.5282. Short sterling futures, however, had a good day, with the dominant market view that interest rates are likely to be cut again this week. Most of the contracts beyond September 1996 made gains of around 15 basis points. The December contract closed at 93.91, from 93.75.

The lira appeared to be the beneficiary of two separate events: the Spanish election result, and optimism about a cut in interest rates.

Mr Giorgio Radelli, economist at Lehman Brothers in London, said that Italy was seen by many investors as being a close substitute for Spain. With Spanish bond and equity prices falling sharply, there was evidence that some investors were switching their funds into Italian assets.

The interest rate optimism springs from the expectation of good news on inflation. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said people were looking for "high-yielders" with supportive fundamentals, and the lira was seen as a good bet given the perception that the Bank of Italy had lagged the field in cutting interest rates.

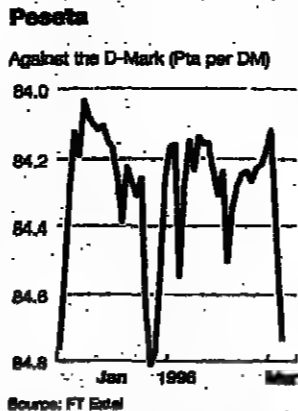
Mr Hawkins said a virtuous spiral was underway whereby a stronger currency was seen as being counter-inflationary, boosting the prospect of lower rates, which in turn helped the lira because they made Italian

investors. They say: "We like Dini because he is a technocrat. We also like the centre-left."

But Mr Radelli said the Dini factor "cuts both ways for the centre-left, with the potential for it to unleash a leadership struggle. He said it might also prevent the achievement of the sort of strong majority in upcoming elections which markets favour."

Traders said the Bank of Spain had been active in the market supporting the peseta. Financial markets reacted negatively to the result which will probably require tri-party negotiations before a government can be formed.

Short sterling, meanwhile, appeared to be the beneficiary of the broadening City consensus in favour of an early cut in interest rates. It was also helped by the good performance of euromarkets and renewed interest rate optimism in the US.



Source: FT Intel

Assets look more attractive.

Mr Radelli said the lira's rally from around L1,035 on February 19 had been driven by very good January inflation data, and the "Dini" factor - a reference to the decision of the previous prime minister to run for office.

He said foreign investors were much more uncritical about Mr Dini than Italian

WORLD INTEREST RATES

MONEY RATES	Over night	One month	Three months	Six months	One year	Long term	Libor	Repo
Belgium week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	7.00	3.00	-
France week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	7.00	3.00	-
Germany week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.80	3.00	-
Italy week ago	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5.00	3.00	-
Netherlands week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.00	3.00	-
Spain week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.00	3.00	-
Sweden week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	5.00	1.50	-
Switzerland week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	5.00	1.50	-
UK week ago	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5.00	5.00	-
US week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	4.00	0.50	-
Japan week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	4.00	0.50	-

LIBOR FT London	Over night	One month	Three months	Six months	One year
3 month	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
6 month	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
12 month	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
US Dollar 3m	4.80	4.80	4.80	4.80	4.80
US Dollar 6m	4.80	4.80	4.80	4.80	4.80
US Dollar 12m	4.80	4.80	4.80	4.80	4.80
SDR 3m	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
SDR 6m	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
SDR 12m	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2

EURO CURRENCY INTEREST RATES	Over night	One month	Three months	Six months	One year
Belgium week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
France week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Germany week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Italy week ago	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2
Netherlands week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Spain week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Sweden week ago	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
Switzerland week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
UK week ago	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2
US week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Japan week ago	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2

POUND SPOT FORWARD AGAINST THE POUND

Mar 4	Closing mid-point	Change on day	5d/10d/1m	Day's high/low	One month	Three months	One year	Bank of England
Europe	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Australia	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Belgium	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Denmark	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
France	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Germany	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Greece	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Ireland	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Italy	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Luxembourg	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Netherlands	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Norway	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Portugal	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Spain	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Sweden	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Switzerland	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
UK	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
US	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8
Japan	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3	15.7478	2.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 4	Closing mid-point	Change on day	5d/10d/1m	Day's high/low	One month	Three months	One year	J.P. Morgan
Europe	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Australia	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Belgium	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Denmark	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
France	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Germany	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Greece	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Ireland	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Italy	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Luxembourg	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Netherlands	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Norway	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Portugal	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Spain	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Sweden	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Switzerland	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
UK	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
US	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8
Japan	10.7878	-0.0017	703 - 803	10.7880 10.7876	10.7880	1.9	10.7806	1.8

CROSS RATES AND DERIVATIVES

EXCHANGE RATE RATES	Mar 4	Over night	7 days	One month	Three months	One year
Belgium	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Denmark	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
France	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Germany	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Italy	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Netherlands	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Spain	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Sweden	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Switzerland	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
UK	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
US	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3
Japan	15.8001	-0.0047	017 - 084	15.8002 15.8192	15.8001	2.3

UK INTEREST RATES

LONDON MONEY RATES	Mar 4	Over night	7 days	One month	Three months	One year
Interbank	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2
Bankers	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2
3 month	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2
6 month	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2
12 month	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2	7 1/2

EUROPEAN CURRENCY UNIT RATES

Mar 4	Over night	7 days	One month	Three months	One year
Netherlands	2.15214	2.15214	2.15214	2.15214	2.15214
Belgium	36.8784	36.8784	36.8784	36.8784	36.8784
Spain	166.488	166.488	166.488	166.488	166.488
Austria	13.4833	13.4833	13.4833	13.4833	13.4833
Germany	1.93627	1.93627	1.93627	1.93627	1.93627
Denmark	7.46037	7.46037	7.46037	7.46037	7.46037
Portugal	166.488	166.488	166.488	166.488	166.488
France	166.488	166.488	166.488	166.488	166.488
Ireland	7.46037	7.46037	7.46037	7.46037	7.46037

BASE LENDING RATES

Mar 4	Over night	7 days	One month	Three months	One year
Adam & Company	6.25	6.25	6.25	6.25	6.25
Barclays Bank	6.25	6.25	6.25	6.25	6.25
Bank of America	6.25	6.25	6.25	6.25	6.25
Bank of England	6.25	6.25	6.25	6.25	6.25
Bank of France	6.25	6.25	6.25	6.25	6.25
Bank of Germany	6.25	6.25	6.25	6.25	6.25
Bank of Italy	6.25	6.25	6.25	6.25	6.25
Bank of Japan	6.25	6.25	6.25	6.25	6.25
Bank of Korea	6.25	6.25	6.25	6.25	6.25
Bank of London	6.25	6.25	6.25	6.25	6.25
Bank of Mexico	6.25	6.25	6.25	6.25	6.25
Bank of New York	6.25	6.25	6.25	6.25	6.25
Bank of Paris	6.25	6.25	6.25	6.25	6.25
Bank of Rome	6.25	6.25	6.25	6.25	6.25
Bank of Sweden	6.25	6.25	6.25	6.25	6.25
Bank of Switzerland	6.25	6.25	6.25	6.25	6.25
Bank of Tokyo	6.25	6.25	6.25	6.25	6.25
Bank of Union	6.25	6.25	6.25	6.25	6.25
Bank of West	6.25	6.25	6.25	6.25	6.25
Bank of World	6.25	6.25	6.25	6.25	6.25

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## LONDON STOCK EXCHANGE

## MARKET REPORT

## Shares rise as rate hopes gather momentum

By Steve Thompson,  
UK Stock Market Editor

A growing conviction around the market that a quarter of a percentage point cut in UK interest rates, the third since December, is in prospect, saw London's stock market make further progress yesterday.

Mr Kenneth Clarke, the chancellor of the exchequer, is scheduled to meet Mr Eddie George, governor of the Bank of England, on Thursday to discuss monetary policy, and the feeling is that the Bank will rubber stamp a rate cut.

The interest rate optimism was not confined solely to London, dealers said. Wall Street made further

rapid progress at the outset of trading yesterday, building on last Friday's 50-point rally and encouraging the bullish mood in UK markets.

A bullish feeling took hold of the market, with the FT-SE 100 index delivering an impressive performance, gradually building up a head of steam and closing only a fraction off the day's best levels.

It settled at a net 15.9 ahead at 3,768.6, only 12.7 off its all-time closing high and 33.0 away from its all-time intra-day high.

Second line issues, measured by the FT-SE Mid 250 index, extended their recent excellent performance. The Mid 250 index ended the day 8.5 up at a record 4,941.8.

The Dow's rise on Friday and yesterday was attributed to the latest economic data, which added to hopes of a cut in US rates when the Federal Reserve Open Market Committee next meets on March 26.

The Bank of France, meanwhile, meets on Thursday to discuss monetary policy, while the Bundesbank council is scheduled to hold its next meeting on Thursday week.

London was additionally sustained by news of yet another takeover, the expected £900m-plus agreed offer from Kvaerner, the Norwegian shipping and energy engineering group, for Trafalgar House, the UK conglomerate.

And traders held out high hopes

that more takeovers or mergers could be around the corner. There were strong hints circulating yesterday that another predatory strike in the electricity sector could be imminent, with Yorkshire Electricity everybody's favourite target.

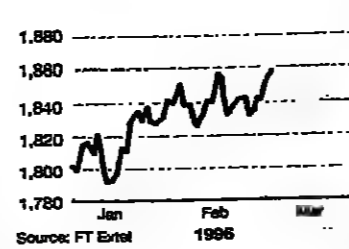
Adding to a general air of increasing bullishness in London was the expectation that a sizeable inflow of cash from funds managing "Peps" would drive markets higher for the rest of the month.

"The market feels very solid and looks set to take a tilt at the all-time highs," said one leading marketmaker, who also pointed to yesterday's relatively high level of activity.

Turnover at 6pm came in at 650.3m shares, well up on usual levels of activity on a Monday. Much of the action was concentrated in the non FT-SE 100 issues which accounted for 63 per cent of total turnover. Customer business on Friday was worth £1.66bn.

Among the individual stocks, food retailers captured two out of the top three spots among the FT-SE 100 constituents after a report suggested supermarket prices would rise by 4 per cent this year. Boots also featured strongly, amid hopes of a substantial share buy-back while Argos, reporting later this month, rose on speculation about a special dividend.

## FT-SE-A All-Share Index



Source: FT Index

## Indices and ratios

FT-SE 100	3768.6	+15.9
FT-SE Mid 250	4941.8	+8.5
FT-SE 350	1883.1	+7.1
FT-SE-A All-Share	1888.83	+5.0
FT-SE-A All-Share yield	3.75	(3.76)

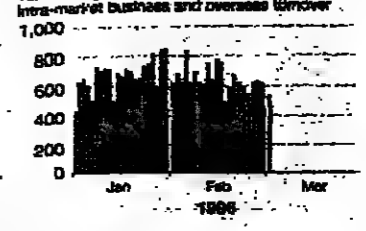
## Best performing sectors

1 Retailers, Food	+1.7
2 Pharmaceuticals	+1.3
3 Retailers, General	+1.1
4 Transport	+1.0
5 Chemicals	+0.9

## Equity shares traded

Turnover by volume million. Excluding

over-the-counter business and overseas turnover



Source: FT Index

## Worst performing sectors

1 Electronic & Elec	-1.3
2 Gas Distribution	-0.5
3 Electricity	-0.5
4 Household Goods	-0.4
5 Leisure & Hotels	-0.4

## Hanson disposal mooted

The agreed deal between Trafalgar House and Norwegian group Kvaerner enlivened conglomerates, sparking talk of a further round of corporate activity in the sector.

A late rumour centred on Hanson, which closed a penny better, at 190 1/2 with dealers pointing to an effective improvement of 4p since the shares went ex the 3p final dividend yesterday. Volume was above average at 13m.

Hanson, which is in the process of demerging into four separate companies, was said to be teeing up a big disposal, possibly the Imperial Tobacco business. The best bet on the potential price tag was £3bn.

Elsewhere, traders picked out Powell Duffryn as a likely candidate for future deals. The group is known to be keen to slim down. A recent note from Kiewit highlighted Powell's potential for disposals. The shares put on 7 to 47p.

A note from Merrill Lynch picked out Harrison and Crofield as a possible contender for a Hanson-style demerger. Harrison added 2 to 164p.

A two week old sell note from ABN Amro Hoare Govett appeared to catch up with Lorrain, which came off 2 1/2 to 183p in 2.5m traded.

As for Trafalgar, the shares traded 3 1/2 and ended just short of the 50p per share bid from Kvaerner, closing 3 1/2 bet-

ter at 48 1/2p.

## Drugs sparkle

Leading pharmaceuticals groups were bought ahead of figures this week and on product approval.

Zeneca, which reports on Thursday, lifted 21 to 1288p. The company is forecast to announce profits of around £850m, excluding restructuring.

It also said it was launching its Tomudex treatment for advanced colorectal cancer in the UK and that other European launches would follow. Merrill Lynch forecasts sales of £1.07m for the treatment by the turn of the century. Tomudex is a result of collaboration between Zeneca, BTG, the intellectual property rights company, and the Institute of Cancer Research. BTG shares rose 55 to 1305p.

Finally, the US District Court in Delaware ruled in Zeneca's favour in litigation brought by Schering over Zeneca's Casodex treatment for advanced prostate cancer.

Glaxo Wellcome, which is to announce tomorrow its first full-year figures since taking over Wellcome, added 17 to 816p.

Renewed optimism about a further reduction in interest rates this week prompted selected retailers to move forward, with the help of a buy recommendation from Williams de Broe.

The broker says the sector is at a historically low relative rating and it forecasts earnings and dividend growth of around 11 per cent in the financial year ending in 1997.

It particularly likes Boots,

which gained 11 to 809p. Marks & Spencer - up 7 1/2 at 436p - and Argos, which rose 17 to 631p.

On the other hand it maintains a sell recommendation on WH Smith, arguing that the dividend might not be "sacrosanct". The shares were flat at 422p.

Lloyds Chemists slipped a penny to 458p on confirmation by the Monopolies and Mergers Commission that it was launching an investigation into the proposed takeover by Unichem, which rose 9 to 252p.

Disappointment that the founders of Body Shop have no intention of taking the chain back into private hands saw the share price slip 3 to 146p.

There had been speculation that Gordon and Anita Roddick, who started the chain, would buy back shares for as much as 170p a share. The company also repeated a warning that full year profits would

be below those of the previous year.

However, the shares were held up by their rating, which was at a 10 per cent discount to the broad market.

Food retailers jumped on a report's forecast of price increases by supermarkets.

Tesco, helped further by a strong buy recommendation from Fleming, avoided the negative impact of a forecast downgrade by NatWest Securities and moved forward 7 1/2 to 378 1/2p, the best performance among Footsie stocks. Argyl lifted 7 to 305.

Frozen foods specialist Perkins Foods jumped 3 1/2 to 78 1/2p, following a solid set of results.

The group's 7.5 per cent yield was said to have found favour with income funds and SGT reiterated its buy stance on the shares. AB Foods added 7 to 413p.

Airports group BAA shot forward 7 to 496p following a buy

note from Credit Lyonnais Laing. The broker points to BAA's superior earnings growth and believes regulatory worries and capacity constraints at Heathrow have been overplayed. CLH has upgraded profit estimates for this year and next by 4 per cent.

British Airways stayed in demand ahead of today's traffic figures for February. The shares added 7 to 517p.

The oil majors were restrained as crude prices dipped, on renewed concerns that Iraq may accept a United Nations plan allowing Baghdad to sell oil in return for food and medicine. BP rose 1 1/2 to 546 1/2p and Shell Transport a penny to 355p.

A number of leading financial companies went ex-dividend yesterday, dragging down the face value of the shares and holding down the Footsie by almost 6 points.

However, once the gross dividends were stripped out the picture looked brighter. Barclays was up 1 1/2 to 467p after the 30.6p dividend and Commercial Union was up 8 1/2 at 609p, excluding the 22p dividend. Royal Insurance was up 2 at 375p after a 13.75p dividend and Abbey National was down 4 at 563p ex an 18p dividend.

ICI, which jumped almost a pound in the past fortnight, gained another 15 to 929p, a new closing record high, on a press report that it intends to boost its financial position by going on the acquisition trail and overhauling its financial and tax structures.

A combination of positive results from General Cable, plus weekend press comment on cable TV shares, revived interest in the sector. Cable added 1 to 183p and Nyx CableComms gained 3 to 106p.

The 1995 results from General Cable told a story of continued weak consumer penetration but contained some favourable operating news. For example, the group's cashflow

## FINANCIAL TIMES EQUITY INDICES

	Mar 4	Mar 1	Feb 29	Feb 28	Feb 27	Yr ago	'High	'Low
Ordinary Share	3791.3	2778.5	2758.4	2756.2	2748.7	2287.4	3791.3	2238.3
Ord. sh. yield	3.24	3.24	3.26	3.26	3.26	3.26	3.24	3.76
P/E ratio incl	16.98	18.88	16.76	16.55	16.48	16.57	21.11	16.57
P/E ratio net	16.78	16.65	16.55	16.55	16.25	15.91	22.21	16.17
* For 1995/96, Ordinary Share index since completion: high 3791.3 4/23/96; low 454.8 8/4/94. Base Date: 1/7/93.								
Ordinary Share hourly changes								

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**Rockwell**

Mar	20160.0	20170.0
Jun	20280.0	20190.0

[illegible]

## FINANCIAL TIMES TUESDAY MARCH 5 1996

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AMEX C

New

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Continued on next page

**NASDAQ NATIONAL MARKET**

**1 am along March**

**AMEX COMPOSITE PRICES** 4 pm close March 4

IV	Stk	High	Low	Close	Change
158	89	24%	24%	24%	0
7	82	14	14	14	0
18	113	56	56	56	0
1.04	8	18	24	24	0
0.15	35	2810	8%	8%	0
358	42	10%	10%	10%	0
35	370	5%	5%	5%	0
1.04	8	18	24	24	0
0.15	35	2810	8%	8%	0
358	42	10%	10%	10%	0
35	370	5%	5%	5%	0
1.04	8	18	24	24	0
0.15	35	2810	8%	8%	0
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0.15	35				

## AMERICA

Blue chips  
climb as tech  
stocks tumble

## Wall Street

US share prices were mixed at mid-session yesterday as blue chip issues added to Friday's strong gains while technology stocks continued their tumble, writes Lisa Branstetter in New York.

Just after 12:30 pm the Dow Jones Industrial Average rose more than 50 points, triggering the "downward rule" which restricts program buying. The imposition of that trading restriction marked the ninth time in the past 10 sessions that trading had taken place under restrictive collars. In the first three days of last week, the collars were put on to stem a falling market, but on Friday, like yesterday, the restriction was introduced to slow the rising market.

By 1 pm, the Dow was 45.89 stronger at 5,582.45, the Standard & Poor's 500 slipped 4.84 at 439.01, and the American Stock Exchange composite was 1.77 weaker at 565.21. Volume on the New York Stock Exchange came to 277m shares. The bond market, which had led the equity market through most of its ups and downs over the past several weeks, was mixed by early afternoon amid continued uncertainty about the health of the US economy. Consumer expenditure fell by 0.5 per cent in January, its biggest drop since August 1992, but some economists attributed the weakness to the blizzard of 1996, which struck that month.

Instead of looking at yesterday's relatively old data, investors on both stock and bond markets were looking ahead to Friday's release of figures on

## February employment

Meanwhile technology shares were nearly flat by early afternoon after an extremely volatile morning. The Nasdaq composite, which is about 40 per cent in technology shares, climbed nearly 5 points at the opening bell, only to fall nearly 3 points by late morning. Close to 1 pm, it was off 0.45 at 1,085.63.

In individual shares, Almax slid 2.2% or 8 pence at \$33.4 after Kaiser Aluminum abandoned its attempt to merge with the company in a deal that valued Almax at as much as \$2.5bn. Shares in Kaiser Aluminum fell 1/4% or 3 pence at \$14.34 on the news.

Tyson Foods fell 1 1/4% or 6 pence at \$2.14 after the poultry group announced that it expected market uncertainties and higher costs to cause second quarter net income to fall below analysts' estimates.

Abbott Laboratories added 1 1/4% or 3 pence at \$43.75 after the Food and Drug Administration approved the company's drug, ritonavir, for the treatment of AIDS.

## Canada

Toronto was weak in mid-session trade after a morning in which computer problems had halted activity for almost two hours.

The TSE-300 composite index was 13.36 down by noon at 4,943.20 in volume of just 21.3m shares. Analysts noted that the market was led lower by a 2.8 per cent slide in gold, sharply depressed by falling bullion prices.

Barrick Gold lost C\$1% at C\$40.4.

## EUROPE

## Indecisive election result upsets Spanish traders

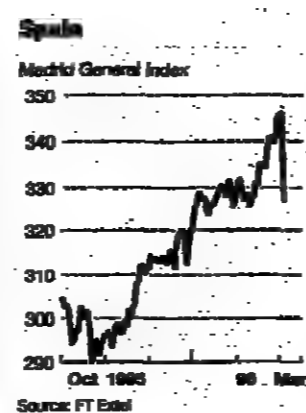
The indecisive Spanish election result upset traders, who had trimmed their bets for an outright PP victory and the immediate interest rate cuts that were expected to follow. The general index dropped 18.63, or 5.4 per cent, to 3,273.4.

Mr Richard Turilli at Paribas, which saw the risks of this outcome in mid-February, said that the result was not a worst-case scenario, and that he expected the PP to be able to govern. However his colleague, Mr Alberto Goyanes, said the prospect of delayed interest rate cuts hit banks and utilities, where Santander and Iberdrola each lost 6.8 per cent; Vallehermoso, the property company, ended P17.75, or 7.5 per cent, down at P12.165.

The biggest falls, 6.3 and 8 per cent respectively, were seen in the construction and building stocks, Cubiertas and FCC. Here, said Mr Goyanes, there had been hopes that a clear PP majority would have brought increased infrastructure spending programmes.

FRANKFURT consolidated as the dollar wobbled and bonds traded sideways. The Dax index closed 2.07 lower at an 1815.10, down 2.46 from 1817.56.

Turnover fell from DM10.8bn to DM7.4bn. Among the leaders, Volkswagen fell DM5.80 to DM561.50. There was talk of a US broker downgrade but



Source: FT Index

there was also room for profit taking after gains last week. Another of the day's stories was that Adidas would bid for Reebok. Adidas declined comment but its shares rose DM2.10 to DM38.50.

Meanwhile, one of last year's big growth prospects came badly unstuck: Fielmann, Europe's leading optician chain, trimmed its 1996 forecast down from DM142m to DM120m, and its growth rate back from 42 per cent in 1995 to 15 per cent this year. The shares fell DM13.50, or 15.7 per cent, to DM70.90 in the post-bourse, and Mr Stefan Muelheim at Dillon Read said there was likely to be more reaction from fund managers today.

ZURICH closed at an all-time high, the SMI index breaking through the 3,400 level, with Wall Street's early showing adding to the impetus provided by the benign interest rate environment. The SMI finished 15.1 higher at 3,400.6 as defensive issues continued to attract international investors.

Profit-taking, however, continued to weigh on Brown Boveri, down SFr15 to SFr1,437, as questions arose over the quality of ABB's 1995 results. Among weak pharmaceuticals, Ares-Serono fell SFr45 to SFr20. The company said that an advisory panel to the US Food and Drug Administration had voted to recommend against full approval of its Serenon drug, used to treat physical wasting from AIDS.

AMSTERDAM's financials were lifted by firm bonds as the AEX index rose 2.46 to 519.05.

EVC, Europe's largest maker of PVC, finished unchanged at F155, after a session high of F159.50, on a good set of 1995 figures, and the forecast that worldwide demand for its products should grow by about 4 per cent per annum.

Geonics rose F14.90 or 4.7 per cent to F110.10, adding to Friday's gains and following a number of brokers' upgrades. At the end of last week the computer services company

## FT-SE Actuaries Share Indices

		THE EUROPEAN SERIES						
		1995	1996	1997	1998	1999	2000	2001
FT-SE Actuaries 100	1580.61	1586.80	1586.84	1587.21	1587.02	1586.95	1586.83	1587.02
FT-SE Actuaries 200	1674.64	1673.11	1673.48	1674.35	1673.71	1673.71	1672.12	1672.35

reported a 22 per cent increase in its 1995 net profit and proposed a four-for-one share split. Hogerovers was up F11.50 at F168.60 ahead of Thursday's results, with expectations of a 40 per cent rise in earnings per share.

Polygram gained 70 cents to F198.90 following news that it was taking a 50 per cent stake in a new US television channel. STOKHOLM was spurred to another record close by foreign demand for Volvo and other cyclical shares. The Affarsvarden index rose 16.2 to 1,902.8 as Volvo B climbed SKr5 to SKr113.

Pharmacia & Upjohn also put in a strong performance, up SKr3 to SKr13.3, on news that it would cut costs by \$300m in addition to existing rationalisation plans.

PARIS consolidated, with the CAC-40 index easing 1.88 to 2,015.31 in modest turnover of over FFr4bn. Significant features included a rise of FFr14

2,345.63, also helped by independent Newspapers, up 5p to a record 535p on the back of the latest circulation figures and results due later this month.

ISTANBUL was pleased that agreement had been reached between the country's leading centre-right parties regarding the formation of a new coalition government. The composite index rose 4.173.32 or 8.7 per cent to 66,308.71.

Turnover soared to a record TL26,800bn from Friday's TL17,210bn.

WARSAW remained in a bullish mood and closed at its highest level since August 1994.

Many analysts felt that, with plenty of institutional buying around, the equity market still had room to move higher, especially after the correction of the last few weeks, and forecast that it could touch 14,000 by the summer. The WIG index closed yesterday 2.8 per cent higher at 11,469.8, with turnover up 41 per cent to 194m zlotys.

BUDAPEST closed at an all time high, with the BSE index up 22.85 at 2,281.97. Turnover was Ft69.7m.

Written and edited by William Cochrane, Michael Morgan and John Pitt

## ASIA PACIFIC

## Budget worries hit Nikkei as China A shares surge

## Tokyo

Concerns over the budget bill and technical selling kept investors on the sidelines and the Nikkei average eased on corporate profit taking, writes Emma Tennant in Tokyo.

The 225 index closed down 104.75 at 20,063.88 after trading between 20,061.89 and 20,221.55. Corporate investors liquidated their shareholdings ahead of the March book closing, dragging down the whole market.

Volume totalled 260m shares against 445.8m. Trust funds supported the index at lower levels, but most investors remained inactive. The Topix index of all first section stocks fell 8.79 to 1,556.04 and the Nikkei index 1.80 to 290.22.

In London, the ISE/Nikkei 50 index fell 0.65 to 1,354.98.

Worries over technical selling prevailed ahead of this Friday's settlements for March futures and options contracts. Long arbitrage positions against March futures had reached record highs, investors saw this as potential supply for the market and refrained from taking positions.

Banks, which face massive loan write-offs for the current business year, took profits in small lots. Meanwhile, uncertainty over the passage of the budget bill for next fiscal year through the parliamentary budget committee weighed on shares in the banking sector.

The budget contains state spending for the government's controversial housing loan liquidation plan, and members of the leading opposition party blocked off the entrance of the committee room to prevent voting. There had been calls

from politicians for an increase in the share of the loss borne by the banks, aside from their part in setting up the fusen, or housing loan companies, and lending them large amounts of funds, politicians wanted the banks to take responsibility for introducing clients to the fusen.

Industrial Bank of Japan fell Y20 to Y2,660 and Dai-ichi Kangyo Bank fell Y30 to Y1,960. Trust banks were also lower with Sumitomo Trust Bank down Y40 to Y1,380.

Tsumura, a drug maker known for its Chinese medicine, lost Y70 to Y1,780 on reports of deaths caused by one of its products. Green Cross, the blood products maker, which faces compensation payments for distributing HIV infected untreated products, lost Y24 to Y561.

In Osaka, the OSE average fell 64.25 to 21,586.52 in volume of 70.1m shares.

## Roundup

China's local currency A shares, available only to domestic investors, rocketed after Beijing banned banks and securities houses from trading in commodity futures, leaving some speculative funds to flow into equities.

SHANGHAI'S A index jumped 9.3 per cent to 62,832 and SHENZHEN'S A shares were up 6.6 per cent at 13,231 as the market reopened after a two week holiday for the Chinese lunar new year.

The enthusiasm did not, however, spill over into hard currency B shares, available to foreign investors. Shanghai's B index was 0.145 weaker at 52,526 and Shenzhen's B shares eased 0.51 to 61.69.

KUALA LUMPUR jumped 1.3 per cent to a 16 month high as market talk about a revamping of Malaysian shares prompted a round of program buying. The composite index rose 13.54 to 1,065.90. Strong interest in blue chips lured buyers back into second board stocks which had eased in the morning, leaving the second board index 1.7 per cent higher at 401.53.

SYDNEY was unable to react fully to the election victory by the Liberal National coalition party because of technical problems. However, before the gremlins struck, the market had shown good gains in reaction to the convincing win by Mr John Howard.

The market opened two-and-a-half hours late, and the

problems meant that the stock exchange authorities were unable to calculate any of the price indices until well after the close. It was estimated that the All Ordinaries index closed up 10.2 at 2,223.0.

HONG KONG finished well off steep early highs with the speech by Britain's prime minister, Mr John Major, aimed at boosting local confidence over the territory's 1997 handover to China, having little effect.

The Hang Seng index put on 59.11 to 11,254.05, off an intraday high of 11,311.95.

Smaller banks stole the show on earnings optimism after recent strong results of the finance sector. Dah Sing climbed HK\$1.15 to HK\$34.60. Wing Hang Bank kept 90 cents

to HK\$32.90 and Dao Hang Bank 40 cents to HK\$33.90.

MANILA dropped sharply as investors unloaded blue chips on fears of a rise in inflation, with the February data due to be announced today. The composite index fell 42.35 at a session low of 2,905.83. Turnover was 2,250m pesos.

Brokers said that many investors flocked to Fortune Cement which made its market debut, closing at 11.75 pesos a premium on its offer price of 8.25 pesos.

TAIPEI was mixed with buying in the plastics sector and selling in electronics. The weighted index made 0.33 to 4,855.35, off a low of 4,855.57. Turnover was a modest T\$90.8m.

Plastics rose 1.3 per cent as a group mainly on late buying following seasonal raw material price rises. Mossel was limit down at T\$90.

WELLINGTON was slightly disappointed by the technical problems in Sydney. The NZSE-40 capital index ended firmer, rising 9.02 at 2,151.42.

Telecom and Lion Nathan were the main risers with the former rising 8 cents to NZ\$6.65 and Lion by 4 cents to NZ\$3.32.

SEOUL retreated late in the day after an expected intervention by the Stock Market Stabilisation Fund failed to materialise. The composite index fell 1.41 to 865.10 in this volume of 17.2m shares. Banking and construction shares were mixed.

## Mexico rises on upgrade

An upgrade from a US brokerage supported MEXICO CITY at the opening but the market then retreated on worries that domestic interest rates would rise soon. The IPC index was down 5.60 at 3,895.90 by mid-session. CS First Boston upgraded its rating on Mexico to overweight from underweight and reduced Brazil to a slight underweight from overweight.

The broker said the decision had been made because Mexico

had greater short-term potential than Brazil.

BUEENOS AIRES followed through on Friday's 4 per cent rise and at midday the Merval index was up 6.74 or 1.3 per cent at 821.98.

Brokers said that the market was dependent in its movements at the present on the direction of US bonds. Last week the market was down 2 per cent. In SAO PAULO the Bovespa index was up 288.88 at 61,123 by midday.

## MARKETS IN PERSPECTIVE

	% change in local currency	% change in US \$
	1 Week	1 Month
Australia	+0.31	+0.85
Belgium	+2.38	+1.91
Denmark	+1.36	+0.84
Finland	+0.89	+0.69
France	+2.38	+1.42
Germany	+1.95	+1.16
Ireland	+1.07	+0.47
Italy	+2.45	+4.93
Netherlands	+0.80	+1.04
Norway	+0.37	+2.54
Spain	+1.37	+4.84
Sweden	+0.74	+4.03
Switzerland	+0.87	+3.04
UK	+0.37	+0.40
EUROPE	+1.91	+0.76
Australia	+0.59	+0.84
Hong Kong	+1.21	+2.22
Japan	+0.21	+3.17
Malaysia	+0.51	+1.43
New Zealand	+0.53	+1.74
Singapore	+1.89	+0.10
Canada	+0.52	+1.98
USA	+0.16	+1.61
Mexico	+0.52	+6.19
South Africa	+1.17	+5.23
World Index	+0.69	+0.06

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## FT/SE ACTUARIES WORLD INDICES

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	US Dollar	Day's Change	1 Week	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	10 Years
Australia (A\$)	196.51	135.03	155.44	176.93	1.2	0.91	201.10	194.75	133.09	133.09
Austria (S)	137.12	124.73	143.96	143.42	0.9	1.60	196.23	196.23	123.80	142.29
Belgium (Bf)	212.62	141.68	163.30	159.23	0.9	3.21	217.72	203.04	140.75	161.77
Canada (C\$)	156.57	103.70	121.67	267.15	2.2	1.01	154.94	155.05	103.00	116.36
Denmark (DKr)	154.67	103.10	118.68	152.28	0.4	2.45	153.63	147.78	102.13	107.39
France (Ffr)	303.41	202.25	232.81	235.31	0.7	1.61	302.54	282.98	201.12	231.16
Germany (DM)	184.32	125.85	141.43	176.92	0.8	1.95	183.44	177.84	121.95	140.16
Greece (Dr)	190.94	125.28	148.51	176.92	1.2	1.03	189.25	183.26	123.80	144.58
Italy (Lira)	173.79	115.85	133.35	133.35	1.1	1.83	172.55	167.10	114.71	131.84
Japan (Yen)	437.75	291.80	335.89	434.58	0.8	3.28	434.11	420.41	288.50	331.70
Netherlands (Gld)	252.45	173.48	199.68	233.07	0.8	3.33	254.47	230.31	171.53	197.49
Norway (Kr)	74.28	51.05	58.76	89.31	0.7	1.90	73.32	73.91	50.74	59.31
Spain (Ptas)	149.59	91.71	114.78	99.71	0.3	1.08	149.50	144.78	99.38	114.22
Sweden (Kron)	150.77	103.10	118.68	152.28	0.4	2.45	153.63	147.78	102.13	107.39
Switzerland (Sfr)	149.59	91.71	114.78	99.71	0.3	1.08	149.50	144.78	99.38	114.22
UK (Sterling)	150.77	103.10	118.68	152.28	0.4	2.45	153.63	147.78	102.13	107.39
USA (Dollars)	100.00	100.00	100.00	100.00	1.0	1.00	100.00	100.00	100.00	100.00
World Index	100.00	100.00	100.00	100.00	1.0	1.00	100.00	100.00	100.00	100.00

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the future

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	1995	1994
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Earnings per share	16.50p	10.70p
Total dividend per share	6.00p	4.75p

\* adjusted for exceptional items related to acquisitions and disposal of businesses

† interim dividend of 1.0p, together with final dividend of 4.2p payable on 24 May 1996 to shareholders on the register at 19 March 1996

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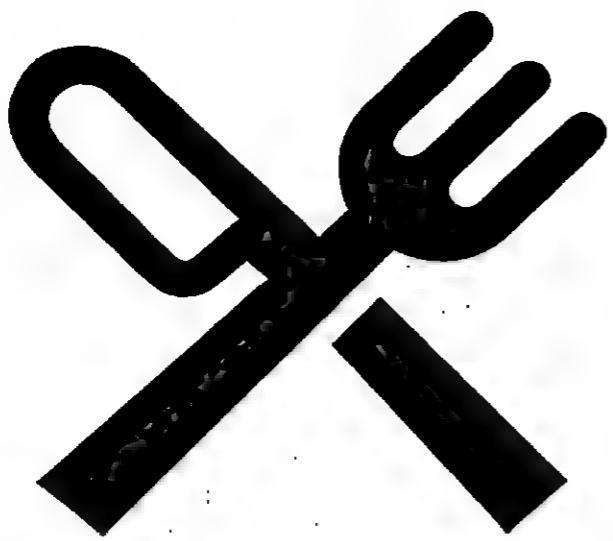
Vanni Treves Chairman

Roberto Quarta Chief Executive

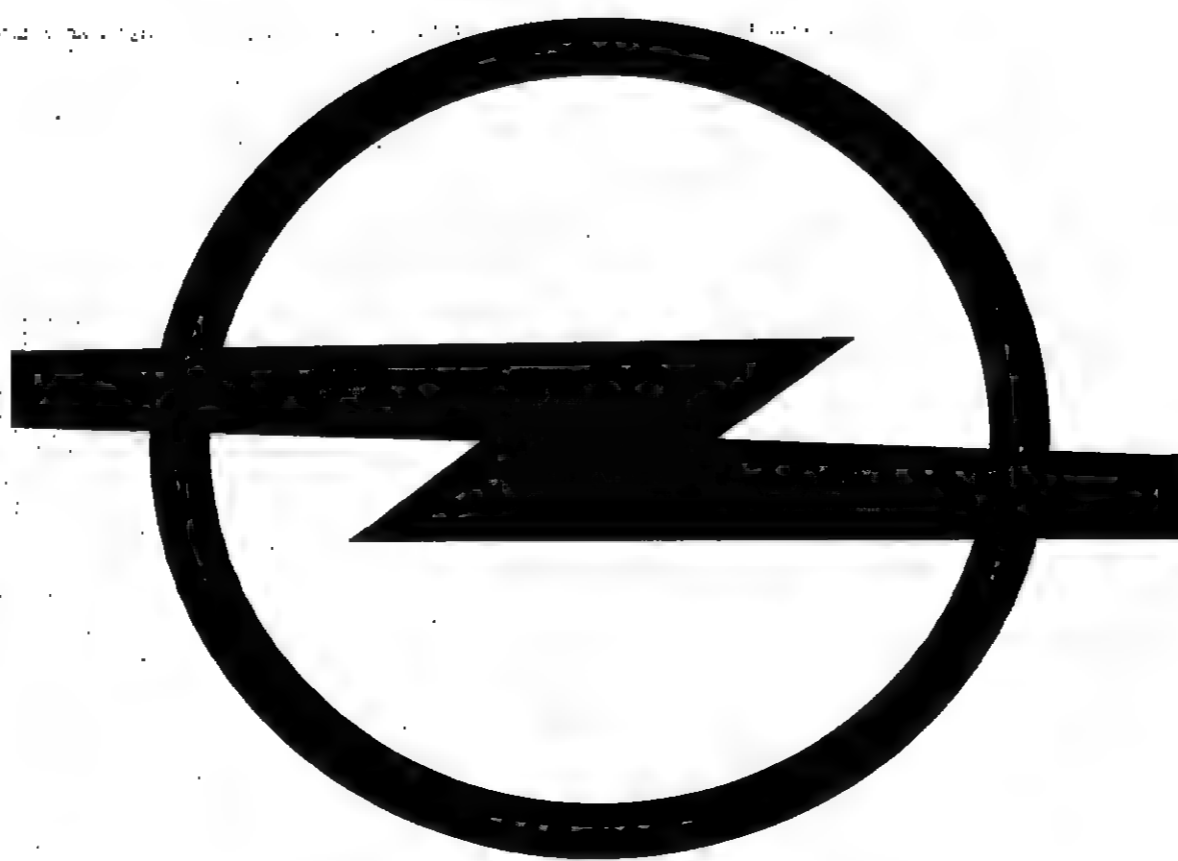
# Europeans differ on many things.

مكنا من الأهل

9  
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**But they agree,  
to a surprising extent, on cars.**



Ask any random sampling of Europeans which football club they favour, or what country makes the best wines – and there's sure to be a lively discussion. But calm usually returns when the conversation shifts to cars, a subject on which there is a remarkable degree of consensus.

This cheering fact emerged from the official 1995 car sales figures. The technically identical Opel/Vauxhall range was among the top three brands in 14 different European countries. Overall, it was the leader in Western Europe, with a 12.6% market share.

And these were not simply one-off results: 1995 was the fourth year in a row that Opel/Vauxhall was the Number One car brand in Western Europe, the 14th consecutive year in Switzerland – and the 27th in the Netherlands.

On the other hand, we know all too well that success of this kind is never a given – that the more times we're Number One, the harder we must work to stay there. We have to win customer loyalty not once, but day after day. However, with Tigra sales well above expectations (66,450 proud new owners last year), and the new Vectra off to a fast

start; with Omega volume up nearly 8%, and more than 800,000 Corsa-based cars sold worldwide, we're confident we can maintain a strong market position this year.

In any case, while Europeans have every right to disagree on foods, wines, or whatever – we'll do our utmost to maintain their agreement on cars.

**OPEL** 

## NEWS: UK

# Nuclear company on market with no profit record

By David Lascelles,  
Resources Editor

British Energy, the nuclear power generator which the government hopes to privatise next summer, will be offered to investors without ever having made a profit.

Accounts prepared to illustrate how the newly created company would have performed if it had been in existence for the past five years show an operating loss of between £50m and £550m (£76.5m and £841.5m) a year. In the financial year

ending this month, British Energy is expected to lose about £150m.

Releasing the figures yesterday, Mr John Robb, chairman, declined to make any forecasts about future prospects. But BZW, the stockbrokers advising the government on the sale, issued a forecast which showed a profit of around £144m for the year ending March 31 1997, thanks to cost reductions and growth in output from British Energy's newest station, Sizewell B, which started up last year. Profits would rise steadily after that.

BZW said the company stood to show "a sharp increase in profits and cash flow", and predicted that the sale would realise between £2.4bn and £2.6bn. Only a collapse in the electricity price, which BZW thought unlikely, would push the company back into the red.

Other analysts were more sceptical about the outlook. But they stressed that the absence of profits should not inhibit the sale provided that British Energy held out the prospect of healthy returns and strong dividend growth.

Mr Robb and his executives stressed that British Energy's recent record showed it was reducing costs and improving efficiency. It had also got its environmental clean-up liabilities under control, and was well-placed to pay for them.

Mr Robb refused to comment on the state of negotiations over the level of debt British Energy should carry on its balance sheet. Ministers are keen to load debt on to the company to prevent an embarrassing repeat of the easy profits made from past electricity privatisations.

On the equally sensitive issue of directors' pay, Mr Robb said he favoured granting share options to staff to create incentives. They should not be confined to directors but "pushed right down the chain to middle management levels" in the £20,000-plus salary bracket. This would cover 2,600 people, or 88 per cent of the total staff, Mr Robb stressed, however, that this would have to be decided by the remuneration committee.

It was also likely that the government would impose a moratorium of

one to two years on the granting of share options so that staff did not benefit from the sharp run-up in share prices which usually followed a privatisation.

The government will hold two golden shares in British Energy, one through the secretary of state for Scotland and the other through the trade and industry secretary. This will give it a veto in a takeover bid.

Mr Robb said he had been surprised by news that the government might consider selling British Energy direct to another company.

## Beatles snub \$225m offer for 'comeback'

By Alice Rawsthorn

The three remaining Beatles - Paul McCartney, George Harrison and Ringo Starr - have rejected a \$225m offer from a group of US and German entrepreneurs to stage a "comeback" world tour.

Since the Beatles' final concert at Candlestick Park, San Francisco, in August 1966, the band has been inundated by offers to go back on the road. But none were as generous as the latest bid to pay them \$75m each for a 22 night tour of the US, Japan and Europe this summer.

Paul McCartney said yesterday that the three were rejecting the offer because they did not want to reform the band without John Lennon, who was shot dead in 1980.

"People will say that we could get someone else to fill John's place, but it just wouldn't be the same," he added, describing the value of the proposed deal as "ridiculous".

The \$225m offer follows a resurgence of "Beatlemania" after the launch of *Anthology I*, an album including some previously unreleased material. Although *Anthology I* was criticised by some purist Beatles fans, it was one of the most successful records of 1995, selling 3m copies in the US.

The bid to reform the Beatles comes at a time when other 1960s and 1970s rock acts have staged commercially successful tours. "Dinosaur" rockers are by far the most profitable part of the tour market as their older fans can afford high ticket prices. New acts often have to sell tickets more cheaply because their fans are younger and less affluent.

The Rolling Stones, friendly rivals to the Beatles in the 1960s, sold \$121m of tickets for the US leg of their 1994 tour. Pink Floyd, another veteran 1960s British rock group, grossed \$103m when touring the US that year.

## Government preserves 'free' television sports

By James Harding  
and Raymond Snoddy

The British government yesterday backed down and agreed to preserve eight top national sporting events such as the Derby and the Football Association Cup final on terrestrial television.

The guarantee that the BBC or other terrestrial broadcasters such as ITV can continue to show the so-called "crown jewels" of British sport follows last month's defeat on the issue in Parliament.

It comes after years of government insistence that it would be unfair to block satellite broadcasters from buying exclusive rights because it would prevent sports bodies from getting the true market rate for television rights.

Mrs Virginia Bottomley, national heritage secretary, said yesterday the decision to bar satellite broadcasters from buying exclusive rights "took into account the view of the House of Lords," which voted 223 to 106 to keep the events available to all viewers.

All eight events are available on terrestrial television even though in 1990 the government removed most of the protection for listed events. Since then, it has been possible to show the listed events exclusively on a subscription sports channel like Mr Rupert Murdoch's BSkyB, but not on a pay-per-view basis.

Under the revised proposals, the government will prevent the eight events from being

shown live on an exclusive basis either on subscription or pay-per-view services.

The events are: the FA Cup Final, the Scottish Cup Final, football World Cup finals, the Olympics, home test cricket matches involving England, the Grand National and Derby horse races and the finals weekend of Wimbledon tennis.

Ministers yesterday acknowledged the overwhelming public pressure to keep the eight "listed" events on terrestrial television. Officials at the Department of National Heritage conceded: "The government just took its eye off the ball on this one - the weight of the argument, if not all the details of their amendments,

was with the Lords."

Lord Inglewood, broadcasting minister, who announced the change of policy, said: "We have been open-minded on the matter. When we debated the issue in the Lords, our position was one of agnosticism."

Lord Donoughue, one of a cross-party coalition of peers that defeated the government last month, described yesterday's news as "a coup." Sports rights bodies, however, wanted to be free to decide their own broadcasting arrangements.

The BBC welcomed the news, but said it looked forward to today's debate on ensuring that exclusive live rights are sold separately from recorded highlights.

Mr Jon Davey, the director of cable and satellite at the ITC, the regulatory body for all commercial television, believes that the act has provided a good definition of video on demand "but possibly also of Internet services".

The ITC will look at plans by leading cable operators, such as TeleWest, Nynex and Bell Cablemedia, to carry Internet services, probably from later this year.

At the same time, the ITC is looking at the implications of amendments to the EU broadcasting directive proposing that a "v-chip" be incorporated into any television sold in the EU. The chip would allow self-regulation by viewers of programmes which might be harmful to children.

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## Industry aims for more from less

By Peter Marsh in London

One of Britain's biggest engineering groups, T&N, plans a 17 per cent increase in output in the next two years from its worldwide plants making brakepads for cars.

It reckons that the investment of about £15m would have been more like £35m had the programme been carried out a decade ago.

"We can do more with less," said Mr Amar Sabherwal, the T&N director with responsibility for brakepads and other friction products.

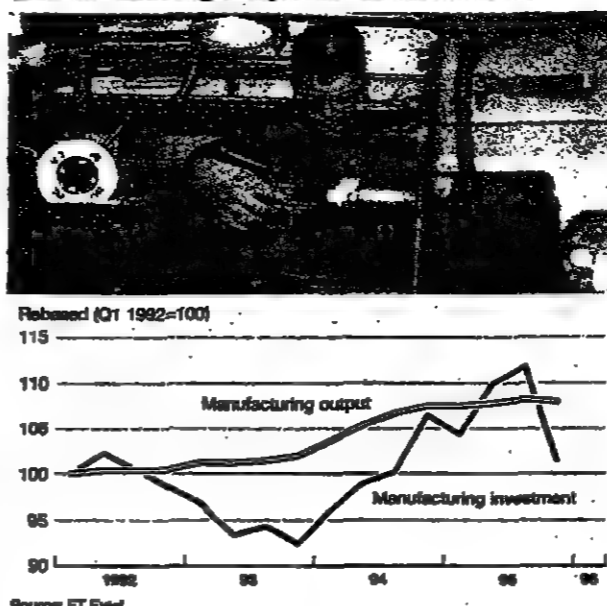
That theme is being repeated elsewhere in manufacturing industry - with implications for the way economists interpret statistics for factory investment.

In recent months investment figures have been surprisingly muted, given that manufacturers generally have rebounded fairly strongly from the early 1990s recession. According to government figures manufacturing investment fell 9 per cent between the third and fourth quarters of last year, leaving spending a mere 7 per cent higher than during the last recessionary trough about five years ago.

One theory to explain the relatively weak investment figures is that they are a result of widespread changes in the way factories manage their workforces.

The theory is shared by government officials in the Office of Public Service and economists such as Professor Patrick Minford of Liverpool University, who is on an informal panel of Treasury advisers. According to this point of

Manufacturing output and investment



Source: FT Staff

view - which is to be outlined in a government discussion paper in the next few weeks - factories need to invest less in the climate of the mid 1990s because they can crank out significantly bigger productive output from every pound they spend on capital equipment than was the case 10 - or even five - years ago.

One factor may be the increasing importance in the UK of Japanese-style working methods which have increased labour flexibility. In many plants, which frequently employ far fewer people than was the case a decade ago, workers are better trained and work more intelligently.

A second factor - proposed by economists at the Bank of England - is that because of the reduced costs of computer equipment, factories need to spend far less than 10 years ago for equipment capable of automating a given production operation.

The view about changes in organisation explaining the reduced need for investment is no more than a theory. As one government economist said: "It is a plausible idea, but we are still struggling to come up with a programme of research that will tell whether it is true."

In the case of T&N, one of the European leaders in brakepad production, the company intends to increase output

from its 17 worldwide plants, of which four are in the UK, from £350m in 1994 to £410m next year. It also plans five new plants to increase volumes even more.

Mr Sabherwal says that relatively low capital sums are needed to boost production from existing facilities because of big changes in working practices over the past decade - many of them inspired by T&N's work with Japanese car and engineering companies.

The new methods require heavy resources to increase worker training. However, unlike investment in physical items such as plant, machinery and buildings, T&N reckons this is impossible to measure and so does not keep any statistics.

The statistical difficulties underlie the problems of backing up the theory with hard evidence. However, at least one company - Lander Automotive, a privately owned automotive parts company based in Birmingham - has tried to quantify the benefits which it has obtained from higher degrees of training.

Lander, which makes components for customers such as Ford, Rover and Jaguar, has adopted new production techniques largely through participating in a Department of Trade and Industry-backed "Learning from Japan" programme.

In the past three years the company has doubled its annual sales to about £18m, investing a constant figure of about £500,000 a year in plant, machinery and buildings.

Over that period employees have risen from 200 to 320.

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Founded in Italy in 1958, the company has been widely growing in the main foreign markets: in Europe, thanks to a network of production sites, it exists in Italy, Spain and Switzerland while, thanks to its marketing and sales structures, it also exists in France, Belgium, Holland and Greece. Beyond these regions, Bieffe Medital is active in the UK, Ireland, Scandinavia, Eastern Europe (Poland, the Czech Republic and Slovakia, Hungary), North Africa (Algeria, Tunisia, Libya, Egypt), the Middle East (Jordan, Kuwait, the U.A.E.) and America (Venezuela, Ecuador).

### A dynamic company always in expansion

Bieffe Medital in 1995 reached a yearly production of more than 60 million units of parenteral solutions, some for dialysis, and more than 30 million pieces of equipment for their administration, having developed its own technology, which is promoted and sold successfully all over the world (the most recent objective reached was in China, where the group entered into a joint venture with the State owned company Tianjin Amino Acid). The importance of foreign markets is continuously growing: in fact about 60% of Bieffe Medital's sales are in the Italian Market while around 20% is realized in other European countries and the rest in Latin America and Asia.

Unique products in the peritoneal dialysis field: patented the first bio-container not made in PVC. The core of Bieffe Medital's business is products

for dialysis: besides the production of specific solutions for hemodialysis and blood filtering, the company has also patented "Clear Flex" the unique bio-container for peritoneal dialysis not made in PVC, realized in

more bio-compatible and ecological plastics. After 5 years of research, Bieffe Medital presented "Clear Flex," a unique product that reduces possibility of risks of peritoneum infections, doesn't contain plasticizers and being completely thermo-resistant permits sterilization at 121° C. By virtue of its composition, "Clear Flex" is particularly appreciated in countries who care about ecology.

The company is moreover developing the urological products area: the most important product is urological irrigation sets based on one or more irrigation lines and systems for the collection of irrigation liquids. The Surgery Division - whose main product is a flexible endoluminal stapler - and the Pharma Division - that produces aminoacid solutions and anesthetic products - complete the range of products.

### Research and development: a strategic sector for Bieffe Medital's production

Research plays a key role in the strategies of the company that in 1995 has heavily invested in R&D: the Engineering and Business Development Division objectives are studying new products, refining production techniques and providing assistance to licensees; the company can also supply technology for the construction of new plants, and is also able to furnish all the instruments and training personnel required.

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# Britain to harden stance on European powers

By Robert Peston,  
Political Editor

Britain will harden its sceptical approach to European Union policy next week with a pledge to oppose increases in the powers of the European parliament and to strengthen the role of national parliaments in EU decision-making.

The publication of a white paper on the UK's approach to the forthcoming intergovernmental conference on reforming the EU's institutions will confirm the prevailing view in many European capitals that the UK is intent on blocking substantial reform.

The paper will say that the government sees no case for any increase in

the powers of the European parliament although the option will be left open of giving the parliament greater oversight powers over the European Commission.

This is a significant shift from the previous formula used by Mr John Major, prime minister, that there should be "no massive increase" in the parliament's powers.

"That formula left open the idea that we would agree to substantial transfers of powers to Strasbourg," said a senior member of the government. "We were keen to scotch that."

The UK also wants an EU treaty amendment so that national parliaments have the right to see all EU proposals at "an early stage", to give

them an opportunity to make submissions on the shape of EU legislation. There are also important proposals on the workings of the European Court of Justice, although much of the detail will be published in a subsequent memorandum.

The most radical suggestion is that the appeals mechanism should be incorporated into the court's procedure. Initial judgments would be made by the court "in chambers", with the possibility of appeal to the full court.

Another suggestion is that the right of the court to limit the retrospective effect of its judgments should be written into the EU's treaty. The UK also wants the principle established that where the court finds a member country

has failed to implement an EU obligation but acted in good faith, no damages should be payable by that country.

Mr Major will try to achieve the delicate balance of appeasing the sceptical right of his party while appearing to make constructive proposals. In the EU's common foreign and security policy - the subject of an important speech today by Mr Malcolm Rifkind, the foreign secretary - the UK will support plans for the establishment of a "joint analysis unit" to support the EU when it acts as a body.

The government is building bridges with France by supporting its proposal for the appointment of an EU

representative on foreign policy - although the UK is insistent that this individual should be a "servant" of the council of ministers and should not be seen as a *de facto* EU foreign minister.

However, the paper will repeat the government's determination to resist any extension of qualified majority voting and thus no dilution of the UK's veto. Other EU countries see this as an insuperable roadblock to reforming the EU's institutions to prepare for its enlargement.

"There is no possibility of the IGC reaching a conclusion until after the UK general election", commented a senior member of the European Commission.

## Compensation for fishermen could hit \$46m

By Deborah Hargreaves

The UK government could be forced to pay as much as \$32m (£45.9m) in compensation to Spanish boat owners for banning them from fishing in UK waters if the European Court rules in favour of the fishermen today.

The court is expected to approve a compensation claim by more than 100 boat owners after the government tried to restrict foreign ownership of British fishing vessels seven years ago.

In 1981 the court ruled that the policy of refusing foreign-owned boats licences to fish in British waters was illegal.

A decision to grant the fishermen financial damages is likely to spark further political controversy over the European Union's Common Fisheries Policy. British Eurosceptic MPs have championed the UK fishing industry, whose representatives say that the Spanish fishermen were stealing their fish by registering in UK ports.

The Spanish fishermen and fishing companies registered at British ports to gain access to national fish quotas. The government tried to stop this in 1989 by restricting foreign ownership of boats, but the EU ruled that discriminatory.

Mr Barrie Deas, chief executive of the National Federation of Fishermen's Organisations, which represents the UK fishing industry, said foreign-owned boats now made up 20 per cent of British fishing capacity. "The Spanish have exported their over-capacity problems. Part of the reason we can't meet our target for fleet reduction is because of the number of foreign-owned vessels," he said.

Mr Deas said it highlighted a contradiction in the CFP that fishing quotas were set nationally, but could not be reserved just for national fishermen. "Forty per cent of the UK place quota is now owned by foreign flag ships," Mr Deas said.

Mr Giuseppe Tessauro, the European court's advocate-general, delivered an opinion last October saying that he believed that the fishermen were entitled to compensation. The court judges usually follow his advice although it is not legally binding. If the judges rule in the fishermen's favour today they will be able to sue the government for compensation for lost earnings and expenses for the time they were forced to tie up in port while the ban was in place.

## Tough talk from embattled PM

By John Kampner in Seoul

In the Far East, as at home, Mr John Major has faced his perennial task of reconciling the seemingly irreconcilable. For the prime minister the problems of Hong Kong, during a visit less than 500 days before its handover to China, bore many of the hallmarks of the incessant battles he has had to fight during his five years of office.

On one side was the Chinese prime minister, Mr Li Peng, who made clear during talks in Bangkok last Thursday that his government would not brook what it calls interference in Hong Kong by a diminishing power. On the other are the many people in the territory, who through their pro-democracy elected representatives, have accused the British of leaving them to the mercy of Beijing from July 1997. Mr

Major's response was to seek to straddle the two demands. His increasingly robust Eurosceptic tone - as with his defiant message to China - might serve to disguise the forces of history. Two years after 1997 is another deadly date for British Conservatives, the initial deadline for monetary union.

The abiding impression left by Mr Major's three-nation tour has been of a prime minister seeking the best means available to handle his country's steadily declining diplomatic weight.

If geo-strategic concerns are put to one side, the outcome of his trip could be seen as favourable for Mr Major. He left London last Wednesday after enduring three of the toughest weeks of his leadership. In that period he contrived to ensure that his ministers could escape, Houdini-style, from the Scott report on

arms sales. At the same time he had to cope with the resumption of the IRA's bombing campaign and to broker a deal with Dublin on all-party talks for Northern Ireland that left some Conservative right-wingers talking of appeasement to terrorism.

But after his keynote speech in Hong Kong yesterday, and the polite reaction it received, he was positively chirpy.

The final leg of the trip today, devoted to selling the merits of British entrepreneurship in the search for yet more Korean investment, appeared best suited to the Major image: little glamour in such a cause, but much tenacity applied in its pursuit.

It will be those very attributes that Mr Major will rely upon as he returns to Westminster to face a long hard year in his attempt to keep his party in office.

## Minister to stress security issues

By Bruce Clark,  
Diplomatic Correspondent

Mr Malcolm Rifkind, the foreign secretary, will today set out counter-proposals in the face of pressure from France and Germany to raise the European Union's profile in foreign affairs and security.

UK officials said his speech to IFRI, a foreign affairs think-tank, would include up to half a dozen practical suggestions for increasing the effectiveness

of the EU's common foreign and security policy. The speech will amount to a partial preview of the long-promised white paper which will set forth Britain's positions in the inter-governmental conference on the EU's future.

Mr Rifkind's suggestions are expected to include an upgrading of the secretariat which formulates the CFSP, and possibly closer links between that body and the EU's rotating presidency.

But the proposals are not expected to call in question the British positions on the formulation of EU external policy: no extension of qualified majority voting to foreign and security issues, and no military dimension for the EU.

UK officials said yesterday that London drew a sharp distinction between the real effectiveness of foreign-policy decisions and the "efficiency" which a streamlined decision-making procedure

would in theory provide. Any EU pronouncements that were known to have been opposed by one or more important member states could never be very effective, the officials said.

In the past, Britain has suggested drawing the EU and the 10-nation Western European Union, an embryonic defence club, somewhat closer together by holding summits of the two organisations in rapid succession.

### UK NEWS DIGEST

## Swedish insurer in electronic move

Skandia, the Swedish insurance company, yesterday became the first insurer to take advantage of recent rule changes and to link offices outside the UK with the London international insurance market's electronic networks.

The move marked a significant step for the market, which decided last week to grant insurers based elsewhere in Europe access to its trading and processing systems. The aim is to enhance the City of London's status as an insurance centre by becoming the hub of an electronic market place.

The London market, of which Lloyd's forms the largest part, provides cover for ships, aircraft, properties, other insurance companies and businesses around the world. Total premium income in 1994 was about £15bn (\$22.95bn). The opening up of the market was spurred by the London International Insurance and Reinsurance Market Association (Lirma), a rival trading organisation to Lloyd's.

Ralph Atkins, Insurance Correspondent

## Awkward start for Irish talks

Mr Gerry Adams, the president of Sinn Féin, was prevented from entering Belfast's Stormont Castle yesterday where British and Irish ministers were meeting in an attempt to relaunch the Irish peace process.

The "high-intensity" talks got off to an awkward start as most of the invited parties failed to attend. The pro-British Ulster Unionists and Democratic Unionists declined to co-operate in the talks. Sir Patrick Mayhew, the UK's Northern Ireland secretary, and Mr Dick Spring, the Irish deputy prime minister, were meeting to discuss the timetable for 10 days of talks to hammer out the conditions for elections. Sinn Féin has been told that it cannot take part until the IRA declares a new ceasefire. Mr David Trimble, the Ulster Unionist leader, said yesterday that he saw no need to go to Belfast. He would take part in one of his "regular" meetings with ministers at Westminster tomorrow. Mr Trimble warned that Mr John Major "would be a bloody fool" if he sought to overrule the wishes of the unionists on the issue of elections.

James Harding and John Murray Brown

## Forces ban on gays 'will stay'

Britain is to cling doggedly to its ban on homosexuals serving in the armed forces, on the grounds that the admission of homosexuals would harm fighting capability. Mr Nicholas Soames, the armed forces minister, said yesterday that the government would "fight every inch of the way" to maintain the ban, which is expected to be tested in the European Court of Human Rights.

Speaking at the publication of a review of the Ministry of Defence's policy on homosexuals in the military, Mr Soames claimed that homosexuality in the ranks would seriously lower morale.

George Parker, Westminster

## Construction bond issue launch

An international group of construction companies is about to launch the first eurobond linked to the UK government's private finance initiative, which aims to increase private sector involvement in infrastructure projects traditionally funded and managed by government departments.

The Road Management Group will seek to raise £165m through a 25-year eurobond offering. The group comprises Amec and Alfred McAlpine, of the UK; Brown & Root, part of the Halliburton group of the US; and Dragados, a Spanish road builder.

Antonia Sharpe, London

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## TECHNOLOGY

Electric trams have long been regarded as slow and outdated, but with their improved energy efficiency and zero emissions they are an increasingly attractive option for reducing pollution and congestion.

Throughout mainland Europe, trams are playing a big part in plans to reduce car dependency. In the UK, trams were phased out 35 years ago - apart from the holiday resort of Blackpool - but have recently returned to the streets of Manchester and Sheffield.

Unfortunately, the modern high-tech tram or light rail vehicle does not come cheap. In the UK the most recent example of a modern tram system, completed last October, is the Sheffield Supertram. Each tram cost £1m to produce.

Concern is mounting that the cost of modern light rail designs, most of which are based on heavy rail technology, is spiralling out of control. Researchers are now looking for ways to use materials and technology employed in the aerospace and automotive industries for making light rail transport more affordable. If successful they could revolutionise light rail manufacture, and take it into the 21st century.

Euro-Projects, based in Loughborough, has just completed a year's study investigating the use of light composite materials and adhesive bonding for the rapid assembly of light rail vehicles.

The Euro-Projects team has extensive experience with composites and adhesives through previous work in the aerospace, automotive and marine industries and on Formula One racing cars.

Having secured partial funding from the UK's Department of Trade and Industry, Euro-Projects, together with ABB Transportation, Ciba Polymers, Ciba Composites and Loughborough University of Technology, carried out a feasibility study into a wide range of adhesives and materials. It investigated their mechanical performance, deflection, strength, durability and ease of assembly.

"Our idea was to produce something along the lines of a modern kit car, bonded together," says Gerry Boyce, managing director of Euro-Projects. "We put together modular sections to form a rigid, lightweight box structure, comprising an aluminium honeycomb core enclosed in an aluminium skin. These were bonded together using state-of-the-art adhesives."

The results of the study have been encouraging, and Euro-Projects is seeking further funding under the UK government's Technology Foresight Challenge, to develop a full-scale demonstration model. The cost of development and full-scale testing is about £2m.

"We expect to produce large savings in both construction and



Weighing about 20 tonnes, Tram Power uses only one third of the electricity required to power a typical Continental tram

## Just the ticket

Frances Barthorpe looks at an energy-efficient form of transport which could help ease city congestion

operating costs, as well as making the manufacturing process more flexible," says Boyce.

One of the lightest trams currently in use is the Strasbourg Eurotram. Developed jointly by ABB and a consortium of other European groups, this modular light rail vehicle, which came into operation just over a year ago, includes a number of innovative features to increase productivity and reduce life cycle costs.

The basic vehicle comprises three passenger modules, weighing 4.5 tonnes each, and two cabs. More passenger modules can be added when necessary. Each vehicle has a lightweight aluminium structure with detachable exterior and interior panels, so minor body damage can be repaired quickly. Faults can also be isolated at module level, so instead of the whole vehicle having to be removed from service an exchange unit is substituted.

Another group rethinking light rail vehicle design is the UK consortium TramPower. This comprises Tram Research, PSV International, PowerGen, Blackpool Transport Services, and Pullman Design and Fabrication.

TramPower has used proprietary off-the-shelf items from the bus and coach industry to produce a tram at half the weight and half the price of

comparable products based on heavy rail technology.

Jim Boswell, PSV's managing director, says the group is unique in its use of truck components and suspension systems. "We have produced an ultra lightweight vehicle, of good quality construction, but at very low cost. And it is the first British-built tram in 40 years."

Weighing about 20 tonnes unladen, the tram consists of two interchangeable halves. It has a stainless steel body comprising a space frame similar to that used in bus building, made in sections of 3mm and 2mm gauge steel.

Because of its light weight, the tram - which is to be run on a trial basis in Blackpool this year - uses only one third of the electricity required to power a typical Continental tram.

The idea of using well-established automotive engineering techniques instead of conventional rail vehicle design principles and expensive rail components was that of Lewis Leley of Liverpool's John Moores University.

"The group's aim is to produce a modular vehicle that can be built at an affordable price worldwide, wherever the need arises," says Boswell. "By using mass-produced, off-the-shelf products we have been able to keep development and fin-

ished product costs to a minimum."

Another ultra-light rail-based public transport system currently being tested and evaluated in towns and cities around the UK is the Parry People Mover.

It was invented in 1986 by John Parry, of Parry Associates, as a cheap, easily installed system for the rapidly growing cities of Africa, Asia and South America. But it was quickly realised there was a worldwide market for such a system.

There have since been nine prototypes involving different combinations of energy storage, power control and transmission. The PPM uses as many standard parts as possible, and is powered by energy stored in a revolving flywheel. With an unladen weight of six tonnes, it will carry up to 20 seated passengers and 18 standing.

Once full-scale production begins it is expected that parts of the vehicle will be built as composite structures.

The cost of a typical system, 5km in length, and running six vehicles, is put at between £1.5m and £2m.

It is unlikely such schemes will replace cars and buses but, if priced competitively, they could play a big role in future transport policy.

The author writes for Professional Engineering magazine.

Second thoughts • Ken Gooding

## PremAir stalls out of the fast lane

The Technology Page begins a series which follows up on the progress made by companies or products highlighted in past issues

### THEN

As you drive your car in the future it could be cleaning the air around you. That was the tempting prospect offered by Engelhard, the US special materials and precious metals group, last April.

The company started the automotive and platinum industries by announcing it had developed a catalytic coating of platinum metal that, when applied to a car's radiator or air conditioning unit, would convert carbon monoxide into carbon dioxide and turn ozone, a component of smog, into oxygen as air passed over the components. Engelhard suggested that urban areas with severe smog problems, such as Los Angeles, would particularly benefit from the new technology, called PremAir. It might also help car makers to meet increasingly stringent anti-pollution regulations in the US - especially in California which is pushing towards "zero emissions" from cars - without making dramatic changes to their vehicles or having to include in their offerings electric vehicles, which at present are expensive and limited in range.

Ford, the world's second biggest vehicle producer, added credibility to the PremAir claims by publicly admitting its involvement with tests of the new system. Karen Gandhi, Ford's director of chemical engineering, said: "Initial studies by Engelhard indicate the system could result in air quality improvements equal to or greater than possible with electric vehicles - at much lower costs."

Orin Smith, Engelhard's chairman, said the system could be in use on production cars as soon as 1998 and PremAir would have a market equal to or exceeding that of present

### Clean, dream machine

Kenneth Gooding on a system that reduces car emissions

A car that cleans the air as it drives is a dream machine. It is the concept behind PremAir, a catalytic coating of platinum metal that, when applied to a car's radiator or air conditioning unit, would convert carbon monoxide into carbon dioxide and turn ozone, a component of smog, into oxygen as air passed over the components.

News of the PremAir breakthrough helped to send the Engelhard share price up by 50 per cent to \$26 in a matter of days. In August it was nearly 90 per cent higher at \$32. Eight or more Engelhard executives made about \$4.8m by selling shares when the price was high.

autocatalysts in the US. All this sent the price of platinum up from \$115 (\$270) a troy ounce to \$461.25 in April, its highest for 4½ years. Traders suggested that Engelhard had taken the precaution of buying substantial quantities of the metal in the spot market before making its announcement. Engelhard is 30 per cent owned by Minoro, the offshore subsidiary of the Anglo American Corporation of South Africa. Anglo also owns nearly 24 per cent of Rustenburg, the world's biggest platinum producer.

Now

First signs that not all was going to plan with the PremAir programme came in November when Engelhard announced it was cutting the potential cost of the system by taking out the platinum and using an unspecified base metal instead. This was expected to reduce the cost per car from between \$1,000 and \$2,000 to between \$80 and \$100.

At the same time Ford indicated that, although the technology worked well - removing 80 per cent of the ozone from the air that passed over a treated car radiator - it might not be as effective at

fighting pollution as originally hoped. Computer modelling by Ford showed it would cut overall ozone levels in Los Angeles by only 0.04 parts per billion (ppb), whereas Engelhard had projected a reduction of 30 times that amount. (In 1987 ozone in Los Angeles reached 189ppb.)

Engelhard explained that it had based its predictions on a concept that included modified vehicles in which fans would draw more polluted air over the catalyst. Ford used unmodified vehicles for its testing.

The nine-month test period with Ford came to an end in the middle of February and the vehicle group said it had decided not to use PremAir catalysts on its vehicles but would monitor Engelhard's progress.

Undaunted, Engelhard said it was in contact with other interested vehicle makers. It was also exploring other ways in which the PremAir concept could be used and was conducting work on applications in air conditioners and other stationary equipment. Meanwhile, Engelhard's share price has subsided to \$23½ and platinum's price is down to \$412 an ounce.

More often than not, platinum's price follows gold's up and down. But this year it failed to follow when the gold price suddenly jumped.

Trevor Pitts, manager of marketing platinum group metals at Standard Bank, said last week this was because the US investment funds that bought platinum following Engelhard's announcement last year, speculating on a price rise, suffered big losses when the price fell sharply instead. Now they are very wary of the platinum market.

Launching Standard Bank's Platinum Yearbook in London, Pitts recalled that in November, at the very same time as Engelhard revealed that PremAir was not after all likely to revolutionise the platinum market, "that old chestnut about sales [of platinum] from the US government's strategic stockpile also returned to haunt the market".

Consequently, by the last trading day of 1995, platinum was at its lowest level for the year: \$388.25.

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# Drawn to Leonardo the great

This quintessential Renaissance man still has something for us all, writes William Packer

Among the great masters, Leonardo is one of that handful of whom everyone has heard. I remember my headmaster's absolute assertion that the three greatest artists who ever lived were Raphael, Michelangelo and Leonardo. Even now, the Queen's Gallery's press release for this show unblushingly declares that Leonardo "was probably the greatest draughtsman in the entire history of western art."

Of the cache of surviving drawings by Leonardo, the greater part - 600 - is preserved in the Royal Library at Windsor. Any exhibition that draws upon this trove is therefore inevitably of interest, as much for its surprises as for the chance to see again at first hand some of the more familiar

images. Certainly this present selection by Martin Clayton and Jane Roberts, which registers the shifts of interest and activity against the backdrop of the artist's migratory life, contains many sheets that have seldom, if ever, been shown publicly before.

There is no doubt that Leonardo had his many moments as a remarkable draughtsman, but what he really was, if hyperbole is to be the order of the day, was one of the most interesting and remarkable of men. Francis I of France, the patron of his last few years, thought his conversation quite simply the most fascinating he had ever known. And for us his visual conversation, as it were, still is. Leonardo the artist-engineer, the proto-typ-

ical polymathic Renaissance man, still has something for us all. Great man, then, and great artist too? Yes, without question. It is only the easy superlative that we must watch. Here there is no drawing without interest, even if only because it is an autograph and we sit at the artist's shoulder as he rummages. But it has to be said that among this 100 are many scraps, jottings and conventional studies, interesting for what they tell us of the advance of an idea, perhaps, or what has last caught his eye, but nothing more than that.

Then again this is one of art's eternal puzzles - can a work of a genius not be itself a work of genius? The simple answer is yes, which artists themselves have known all along, for it happens in their

experience all the time. What is so stimulating and ultimately uplifting about this extraordinary collection - the work-a-day things quite as much as those that take the breath away - is that it reassures that old and simple truth.

And the effect of that reassurance is to bring us back not to the renaissance man, ideal and remote, but to the working, practical artist that, beneath it all, Leonardo always was. Of course he was nosy, curious, pulling up plants and cutting up corpses, always looking to see how things worked. And of course that is fascinating. And of course a scribbled note or aide-memoire, a marginal suggestion or diagram about it all, is no more than that. But even

then, in the unselfconscious, un-artistic, practical manner of its expression, we discover the touch of the true artist, for all true artists work in such a way. The mystery is that, so often, there is no mystery. By contrast, there are those drawings in which we find Leonardo so enraptured in his studies as to forget himself and the work, the touch, the concentration moved on to another plane. Two hands laid lightly across a woman's chest, or the rumpled folds at a crooked elbow, are resolved with a light and lively economy of means that is yet sure and complete in itself and an integral, monumental work of art. Off down the Arno he goes to survey schemes for a canal to link Florence to the sea, or cut Pisa off from it - and the

maps he produces are not maps at all but the most free and open of water-colour drawings, almost abstract in their organic vitality. The contrast, perhaps, is best demonstrated in the anatomical work, in which several sheets of closely-detailed, densely-annotated schematic studies and diagrams suddenly give way to an image of an ox's heart and lungs. The veins and sinews trail down for all the world like the tributaries and divergences of the Arno of his maps, and are realised with as much intuitive attack. These are truly great, wonderful things.

Leonardo da Vinci - 100 drawings from the Royal Collection: The Queen's Gallery, Buckingham Palace SW1, until January 12 1997.



Studies of a woman's hands by Leonardo da Vinci

## Ballet/Clement Crisp

### Albrecht's journey

Giselle, returned on Thursday to the Royal Ballet repertoire, might be re-titled *Albrecht's journey* on those nights on which Irek Mukhamedov appears. So powerful is his interpretation, so shot through with the storms and fevers of Romanticism, that the ballet's interest shifts from Giselle's tragedy to Albrecht's journey from unthinking youth to redeemed hero.

It has ever been the mark of Mukhamedov's genius to convey feeling with extraordinary clarity. At the Bolshoi, his repertoire tended towards the archetypal heroes required of the Soviet dancer, though his Spartacus and Ivan the Terrible were compelling studies of character in crisis. It is the Macmillan repertoire which he gained when he joined the Royal Ballet that has shown us the full extent of his dramatic gifts: tremendous scale in statement; subtle effects in expression; absolute conviction in every least action. In *Giselle*, we see these qualities revived in an old and somewhat careworn text.

His Albrecht with the Bolshoi was ardent. In Peter Wright's scrupulous staging at Covent Garden - almost too detailed in such incidents as the Courland hunting party, some of whose members are plainly on day-release from Broadmoor - Mukhamedov has an ideal frame for his portrait. This Albrecht is no princely cad. His passion for Giselle is real, but we sense the social distance that separates them: Mukhamedov amuses by peasant legend; courtly attitudes

glimpsed behind the simple manner. The characterisation is so "understood", so sensitive in detail, that we trace his emotions at every instance. The crisis when the hunt appears; his despair as Giselle's reason fails, are done with a high Romantic ardour. It is no small indication of Mukhamedov's talent that he carries an expressive naturalism with the proper conventions of performance-style for *Giselle*.

For the Albrecht of the second act - haunted, remorseful - every praise. Mukhamedov is here the Romantic hero imagined by Berlioz or Gericault. His final pose, one arm raised to hold the last flower Giselle has given him, is profoundly true, a central image of the ballet as we understand it. Ironically, in the original *Giselle* of 1841, Albrecht was led out of the forest and back to the real world by his fiancée at curtain fall. We know better now.

With Mukhamedov we see, in sum, a uniquely grand interpretation. My own memories of the great Albrechts of the past 50 years, back to Dolin and Lifar, cannot summon up a more commanding or more intensely expressed reading. There are some small problems with costumes: slightly heavier than heretofore, Mukhamedov needs jerkins less upholstered and block-like (and so do the male soloists in the first act sextet, who are outfitted with strait-jackets). This apart, the portrait is superb: dance-drama at its finest.



A uniquely grand interpretation: Irek Mukhamedov in 'Giselle'

The *Giselle* was Viviana Durante, delicate in manner and means, and fired by real anguish in the mad-scene. It is a touching view of the character, and stated with unflinching finesse. The company perfor-

mance was secure; the first act sextet featly done. The score sounded well (though I mistrust a certain sweetening of the orchestration) under Davor Krnjak, despite a couple of brisk moments in Act 1 which

recalled Beecham's dictum about "keeping the buggers on the hop". *Giselle* is in repertoire at Covent Garden in March and April.

## Opera/Richard Fairman

### Back to front 'Ring'

Was it because it was Tuesday night? Or has word about the production got around? The lower half of the Royal Opera House was sparsely filled, which will count as very bad news in the accountants' department when the opera is as expensive to put on as Wagner's *Götterdämmerung*.

Somehow three stray performances of this last part of the *Ring* cycle have turned up by themselves and are evidently proving difficult to market. The production of *Götterdämmerung* was big news when it was new last October, but the controversy of the autumn has cooled now. It is a strange experience coming new to the Royal Opera's *Ring* after most people have made up their mind about it, and even more so if one is starting at the end.

No matter how enthusiastic previous reports have been about the musical performance or how many awards Bernard Haitink has won for his contribution (including the recently announced 1996 Laurence Olivier Award for outstanding achievement in opera), nothing quite prepares the newcomer for the overwhelming impact of what is going on in the pit. In 25 years of opera-going at Covent Garden I have never

heard the orchestra play better. The strings have real depth of tone; wind and brass attain a high standard of balance and intonation, right down to the final chord. Other conductors may have elicited more succulent textures, but Haitink's Wagner goes beyond simply creating glorious orchestral sounds. The whole of this *Götterdämmerung* spoke volumes about getting to the heart of the music and making every phrase tell. It was grand, passionate, exciting Wagner conducting of a kind to treasure.

It would be tempting to say that Haitink was the lone inspiration of the evening, but the Royal Opera has assembled a decent cast of internationally-recognised Wagnerians for these three performances. Anne Evans, a leading Brünnhilde at so many other opera-houses of the world, here appeared as the *Götterdämmerung* Brünnhilde for the first time at home. Lower down the voice is warm and expressive, but as it rises, the upper half loses weight and projection.

The big moments, in particular the last few minutes of the Immolation Scene, are seriously underpowered, but she has touched the heart enough

elsewhere to win forgiveness. Her Siegfried in Wolfgang Feller, who has a sturdy tenor that sounds as if it would never let him down (although it did, rather dramatically, once). He is good at putting across the uncouth young Siegfried that the production wants, but it is a shame the singing comes to match, without much cultivation.

Vivian Tierney's Guttrune and Donald Maxwell's Gunther are well in the picture. Judith Howarth shines as the first Rhinemaiden and Jane Henschel made sure Waltraute's narration made an impact. But the outstanding individual performance was Kurt Rydl, who sang Hagen with a vocal power and personal magnetism that never flinched.

And the production? From this *Götterdämmerung* alone, which ends with two long acts spent facing a pile of cardboard boxes, it is hard to see how there could be enough ideas to start a controversy. If the final part of the *Ring* adds up to so little, can the earlier operas in the equation have contained anything of substance? For the definitive answer we shall have to wait to the autumn, when the Royal Opera will be presenting three complete cycles of this *Ring*. If Haitink is there, I shall be too.

## Concert/Adrian Jack

### Davis's Bruckner

Bruckner symphonies are made for reverberant spaces. As each section, not just the end of a movement, comes to a halt, you expect its final chord to hang in the air as you reel under the impact, and Bruckner left pauses to allow that to happen. Yet on Thursday night, in the London Symphony Orchestra's Bruckner Mozart series, the audience at the Barbican started clapping before Sir Colin Davis had even counted out the Seventh Symphony's final bar.

Chris Tighe

True, as Bruckner's closing movements go, this one is distinctly breezy. It seemed still breezier under Davis's flexible direction and even shorter in relation to one of Bruckner's

longest slow movements, lasting 25 minutes in this performance, which he elected to play after the Scherzo instead of in its usual place as second movement. It was an interesting experiment, but the order printed in the score seems better, because it makes the symphony lighten progressively after two monumental movements.

The Seventh contends with the Fourth as Bruckner's most popular symphony. If the Adagio is the last word as a sustained and soulful elegy, the first movement surpasses it for the mountainous grandeur of its melodies. This performance did not hammer points home with massive pull-ups and exaggerated adjustments of

From a new £595,000 David Mach sculpture made of 350,000 bricks to the first visit of the 7th-century Lindisfarne Gospels north of the Tyne for 1,000 years, Visual Arts UK is striving for wide public appeal. The nine-month event, launched last night in Newcastle upon Tyne, embraces the mainstream (Velasquez's *Rokeby Venus* and 17th-century

## Visual diversity in the north-east

Spanish painters) the contemporary (exhibitions of recent purchases by the Tate and other national bodies) and the bizarre (an ocean-going buoy made out of metal salvaged from Soviet submarines).

The festival is part of Arts 2000, the Arts Council's project to celebrate particular art forms in a different part of the UK each year between 1992 and the year 2000.

The regional build-up began two years ago with a controversy over the Gateshead Angel, a 66-foot-high steel figure which Turner-prize winning artist Antony Gormley is to create for a hilltop site beside the A1 motorway.

These are bold ambitions, but Visual Arts UK's organisers say the celebrations have triggered not only a £10m programme of events in 1996 but also a £50m building programme of new galleries and exhibition space throughout the region.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

DANCE  
Het Muziektheater  
Tel: 31-20-5518117  
● L'Art du Pas de Deux: a choreography by Béjart, performed by the Béjart Ballet Lausanne; 7.15pm; Mar 8, 10 (2pm), 11

### ANTWERP

THEATRE  
Juris Schouwburg  
Tel: 32-3-2319750  
● The Cherry Orchard: by Chekhov (Dutch). Directed by Karst Oudestra. The cast includes Kristin Ras, Ronnie Commissaris, Inesien Cooreman and Herbert x; 8pm, Mar 8; also 1.30pm; to x; 9

### ATHENS

ERA  
Eras Concert Hall  
Tel: 30-1-728233  
Don Giovanni: by Mozart. Directed by Gustav Kuhn and formed by La Camerata and the

Orchestra of the Friends of Music; 8.30pm; Mar 5, 6, 7, 8

### BERLIN

CONCERT  
Konzerthaus  
Tel: 49-30-203092100/01  
● Requiem: by Verdi. Performed by the Chor der St Hedwigs-Kathedrale Berlin with conductor Alois Koch; 8pm; Mar 8  
OPERA  
Deutsche Oper Berlin  
Tel: 49-30-3488401  
● Madama Butterfly: by Puccini. Conducted by Johan M. Arnell and performed by the Deutsche Oper Berlin; 7.30pm; Mar 8  
Komische Oper  
Tel: 49-30-202600  
● Die Entführung aus dem Serail: by Mozart. Conducted by Yakov Kreizberg and performed by the Komische Oper; 7pm; Mar 8

### BONN

OPERA  
Oper der Stadt Bonn  
Tel: 49-228-7281  
● Fidelio: by Beethoven. Conducted by Steven Sloane and performed by the Oper der Stadt Bonn; 8pm; Mar 8

### FRANKFURT AM MAIN

CONCERT  
Jahnhundertalle Hoechst  
Tel: 49-69-3601240  
● Württembergisches Kammerorchester Heilbronn: with conductor Jörg Faerber; trumpet concertos by Torelli, Barsanti,

Tartini, Molter, Vivaldi, Boyce and Stölzel; 8pm; Mar 8

### GLASGOW

CONCERT  
Glasgow Royal Concert Hall  
Tel: 44-141-3326633  
Tel: 41-21-6432211  
● The Royal Scottish National Orchestra: with conductor Paul Daniel perform works by Sibelius, MacMillan and Nielsen; 7.30pm; Mar 9

### GOTHENBURG

DANCE  
Göteborgs Operan  
Tel: 46-31-108000  
● Eva: a choreography by Robert North to music by Howard Blake, performed by the Gothenburg Ballet. Soloists include Tim Liljequist, Esin Aycan and Darren Parish; 7.30pm; Mar 8

### HAMBURG

OPERA  
Hamburgische Staatsoper  
Tel: 49-41-351721  
● Der Widschütz: by Lortzing. Conducted by Gregor Buhl and performed by the Hamburg Oper. Soloists include Klaus Häger, Renate Spingler, Peter Gallard and Gabriele Rossmann; 7.30pm; Mar 8, 12

### HOUSTON

MUSICAL  
Theatre Under the Stars  
Tel: 1-713-822-1828  
● The Music Man: by Meredith Willson. Directed by Stephen Terrell. The cast includes John Schneider, Lee Merrill, Robert Preston and

Diane Tobols; Tue - Sat 8pm, Sun 7.30pm, Sat, Sun also 2pm; from Mar 8 to Mar 24 (not Mon)

### LAUSANNE

CONCERT  
Théâtre de Beaulieu  
Tel: 41-21-6432211  
● Orchestre de la Suisse Romande perform works by Mozart and R. Strauss; 8.30pm; Mar 7

### LEIPZIG

DANCE  
Oper Leipzig Tel: 49-341-1261261  
● Leipziger Ballett: accompanied by the Gewandhausorchester perform three choreographies by Uwe Scholz to music by Stravinsky; 7.30pm; Mar 8

### LISBON

CONCERT  
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131  
● Gidon Kremer, Mischa Maisky and Konstantin Livshitz: the violinist, cellist and pianist perform works by Shostakovich, Franck and Debussy; 7.30pm; Mar 9

### LONDON

CONCERT  
Barbican Hall Tel: 44-171-6388891  
● Matthäus Passion: by J.S. Bach. Conducted by Brian Wright and performed by the Wren Baroque Orchestra and the Goldsmiths' Choral Union; 7pm; Mar 8  
Wigmore Hall Tel: 44-171-9352141  
● Angela Hewitt: the pianist performs J.S. Bach's French Suite in G, 15 Sinfonias, Partita in D, and

Prelude and Fugue in A minor; 7.30pm; Mar 6

### LOS ANGELES

OPERA  
Dorothy Chandler Pavilion  
Tel: 1-213-672-5001  
● Così fan tutti: by Mozart. Conducted by Ingo Metzmacher and performed by the Los Angeles Opera. Soloists include Hillevi Martinpelto, Frederica von Stade and Michael Schade; 7.30pm; Mar 7, 9

### NEW YORK

OPERA  
Metropolitan Opera House  
Tel: 1-212-362-6000  
● Salome: by R. Strauss. Conducted by Donald Runnicles and performed by the Metropolitan Opera. Soloists include Catherine Malfitano, Hanna Schwarz, Kenneth Riegel and Bernd Weikl; 8.30pm; Mar 7, 11

### PARIS

OPERA  
Théâtre du Châtelet  
Tel: 33-1-42 33 00 00  
● Don Carlos: by Verdi. Conducted by Antonio Pappano and performed by the Opéra de Châtelet. Soloists include Roberto Alagna, Karita Mattila, Thomas Hampson and José van Dam; 8.30pm; Mar 7, 10 (3pm)

### STUTTGART

OPERA  
Staatstheater Stuttgart  
Tel: 49-711-20320  
● Rigoletto: by Verdi. Conducted

by Willem Marcel Wentzel and performed by the Oper Stuttgart; 7.30pm; Mar 6

### SYDNEY

OPERA  
Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127  
● Fidelio: by Beethoven. Conducted by Richard Hickox and performed by the Australian Opera. Soloists include Wendy Dixon, Kathryn McCusker, Horst Hoffman, Michael Terry and Robert Allan; 7.30pm; Mar 6

### VIENNA

CONCERT  
Konzerthaus Tel: 43-1-7121211  
● Wiener Bell'Arte Ensemble: perform works by Beethoven, Josef Strauss and Johann Strauss; 0.30pm; Mar 6  
OPERA  
Wiener Staatsoper  
Tel: 43-1-514442960  
● Das Rheingold: by Wagner. Conducted by Peter Schneider and performed by the Wiener Staatsoper. Soloists include Uta Priew, Adrienne Pieczonka, Monte Pederson and Heinz Zednik; 7pm; Mar 8

### WASHINGTON

OPERA  
Opera House Tel: 1-202-416-4600  
● Mefistofele: by Boito. Conducted by John DeMain and performed by the Washington Opera; Soloists include bass Samuel Ramey, tenors William Joyner and Gary Pate, soprano Nelly Miricioiu and mezzo-soprano Marianne Cornetti; 8pm; Mar 8, 11 (7pm)

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Financial Times Business Tonight

## COMMENT &amp; ANALYSIS

The London Stock Exchange's very purpose is in question, says George Graham

## Blood on the road to the promised land

"You're walking through the City of London and suddenly a bloodstained body drops from a window. People want to inquire what's going on within," says Ms Diane Abbott. The Labour MP is a member of the Commons Treasury committee which is investigating the events surrounding the dismissal of Mr Michael Lawrence as chief executive of the London Stock Exchange.

At any other time, the exchange's debate over the introduction of an electronic order-matching system might have seemed like an abstract discussion of costs, liquidity and technology. But the sudden sacking in January of Mr Lawrence has shed a more lurid light on these dry issues.

The row that ensued has revealed far-reaching questions over the way the exchange is governed, and whether it can reconcile its sometimes conflicting roles. These include representing its stockbroker members, running a trading system and regulating the broader securities market on behalf of the City.

"The London Stock Exchange's role is becoming increasingly untenable and may give rise to major obstacles to development of the UK securities industry," says Mr David Jones, chief executive of ShareLink, the retail share-dealing service owned by US broker Charles Schwab.

Evidence given to the Commons committee has painted the London stock market as a cartoon landscape, peopled by greedy marketmakers such as BZW and Merrill Lynch, ruthlessly fighting to preserve their privileges. Meanwhile, Mr Lawrence portrays himself as battling heroically to lead the exchange into a promised land of efficiency and transparency, determined to introduce a new system for trading in shares that would hugely reduce dealing costs.

"The difficulty for us... is that we have to strip out any element of personality and see if there are any structural problems here," says Sir Thomas Arnold, chairman of the Commons committee.

The exchange has already lost its monopoly on UK equities trading - even if Trade-point, its rival, still handles only a tiny volume. During the next 12 months, it will lose control of the actual exchange of share certificates and cash

when the Crest electronic settlement system, developed by the Bank of England and owned by a consortium, takes over this function.

Brokers and investors who agree on little else are almost unanimous that the exchange's costs and staffing levels are too high. When Crest is introduced, it will lose settlement fees it now earns from its own Tailsman system, which last year were £28.5m, 32 per cent of 1995 budget.

The exchange has already reduced its staff by 144 over the past two years, and cut £35m from its annual budget, bringing it to £177m last year. But it still employs more than 1,000 people, and owns a vast and half-empty tower overlooking the Bank of England together with a collection of other buildings in the City which it owns or occupies on long leases.

"The issue is not trading methods. The issue is an exchange which costs this much," says the head of a large broker.

Mr Jones of ShareLink makes the same point in more cautious form: "It is questionable whether it is financially prudent to build or develop new systems within the current cost structure of the London Stock Exchange," he said in a paper submitted to the exchange and to the Commons committee.

The existing trading system is "quote-driven" - marketmakers quote the prices at which they are willing to buy or sell shares on a stock exchange screen, while deals are actually struck over the telephone. This method represented a development of the old jobbing system that prevailed before the Big Bang of 1986, when the stock exchange's rules and structure were radically changed and trading moved off the exchange floor and into bank dealing rooms.

In most of the rest of the world's stock markets, share trading is order-driven. Customers submit firm orders to a central computer which



matches buyers and sellers automatically and executes the deals.

One reason for making a switch to an order-driven system would be to cut the cost of buying and selling shares. This is substantially larger in London than in other large markets - because marketmakers must hold shares to meet client demand.

However, big UK institutions are unconvinced of the cost advantage of order-driven trading since they can almost always deal at prices better than those quoted on screen by a marketmaker. They are more concerned that moving away from a quote-driven system would reduce the ability of the London market to absorb large blocks of shares - particularly when prices are plummeting.

"It's irrelevant if you have the narrowest spread and the lowest dealing costs if you can't deal in size," says Mr David Rough, who heads the

investment management operations of Legal & General, the insurance company.

For the very largest and most heavily traded shares, the method makes little difference; there is always likely to be enough liquidity to allow large amounts of shares to be traded, whether by quote or order.

The real problem is in dealing with smaller and less heavily traded shares. The London system insists on marketmakers offering continuous prices on these.

These smaller shares may not be a big concern for overseas institutions which concentrate on the top 20 or 30 shares. But they are of critical importance to a UK fund manager with holdings in 200 or 300 companies. "What we desperately need is an efficient market, and to some extent we don't care what it looks like," says Mr Rough.

For the banks and brokers with a big share of today's

market, however, radical change could threaten the investments they have made and their commercial position. "If it was a BZW or a Merrill, I would want to protect my position as much as I could. That's perfectly reasonable," says Mr Lawrence, who, nevertheless, blames these two marketmaking businesses for instigating the "coup" that ousted him.

He goes on to say that his dismissal raises questions about how the exchange is run, and how the conflicting interests can be reconciled. The exchange board has broadened in recent years and now includes some directors from investment managers and listed companies, but it is still seen as dominated by the representatives of the big marketmakers. The marketmakers deny that they dominate the board, but think they would be wholly justified if they did.

"The commitment level of the members differs widely; thus one-member, one-vote does not in this case reflect the reality of the market structure," says Mr David Wrennan, head of global equity trading at SBC Warburg, the London investment bank and market-maker now controlled by Swiss Bank Corporation.

Marketmakers complain that the exchange has moved away from the old "club" model and become too much of a commercial organisation.

"In the past it may have been run like a club, but it certainly isn't now. They don't take any interest in what members think, which I think chubs do," says Sir Nicholas Redmayne, chief executive of Kleinwort Benson, the investment bank owned by Germany's Dresdner Bank.

"We were moving away from a club," retorts Mr Lawrence. "What was upsetting them was the fact that the management of the exchange was running the thing in a professional way."

Mr John Kemp-Welch, the exchange's chairman, has now announced a review of its corporate governance. But with its trading monopoly now breached, its settlement functions about to disappear and its cost structure under attack from its members, the question is not how the London Stock Exchange should be run: it is its very purpose that is now in question.

Marketing • Motoko Rich

## When a successful ingredient sticks

ICI is hoping to join the club of brands centred on components rather than products

Shoppers are familiar with trademarks such as Coke, Le Creuset and International Business Machines. But a growing number of companies believe consumers have become brand-conscious about more than their soft drinks, cookware or personal computers. Nutrasweet, Teflon and Intel are among household names which promote ingredients or parts of other products, rather than end-products.

New Imperial Chemical Industries, the UK's largest chemicals company, is trying to join the club of recognised ingredient brands.

Its acrylics division, which manufactures the sheet used in making baths, spas and other sanitaryware, is directing a campaign at house owners. This year, the business will spend \$4m on advertising and marketing in an attempt to make its acrylic products - Lucite in the US and Perspex in Europe - as familiar to consumers as to manufacturers.

"We want to be the Intel of acrylics," says Mr Simon Ellis of ICI's sanitaryware division.

By cutting the consumer division believes it can offer the manufacturer which uses its material a competitive edge, as well as boosting its sales. It is also distinguishing itself from most of ICI's other chemical businesses. "A lot of heavy chemicals may be advertised, but only to their own customer manufacturers," says Mr Bob Hotchkiss of ICI's US acrylics division.

About 70 per cent of European baths are made from acrylic. In the US, where acrylic commands only 18 per cent of the market, it competes with steel, enamel and gel-coated polyester. ICI believes it can increase its sales by

encouraging its customers' customers to opt for acrylic over other bath materials, as well as encouraging them to pump for the ICI product.

One challenge for ICI, which swapped its fibres division for the acrylics business of DuPont, the US chemical company, in 1993, is the lack of familiarity with its name in the US where most DuPont operations were located. The group is using labels and advertisements bearing both the Lucite and ICI names. Its leading magazine advertisement features a toddler mischievously peering out of a bath he has covered with crayon drawings, and invites readers to call a free number to order a sample chip of the Lucite brand acrylic.

The technique is similar to a marketing ploy by Nutrasweet, the sweetener made by Monsanto, the US chemical company, in the early 1980s. When the sweetener was introduced, the company sent gum balls flavoured with Nutrasweet to consumers to try to persuade them that a product flavoured with the artificial sweetener could taste good. ICI uses its chip samples not only to demonstrate the product's qualities but to develop a mailing list of potential consumers. When a caller requests a test kit, the group sends the caller an address to its own customers - bath manufacturers which can make their own contact with bath buyers.

Such co-operation with customers is the hallmark of a successful ingredient brand. Nutrasweet and Teflon offer customers technical support in developing the end products which are the ultimate showcases for their ingredients. "We do not just drop our product on our customer's back door," says Mr Jim Mitchell, director of marketing at Nutrasweet. "It is to our advantage, from a financial standpoint, to ensure our customers'

products are successful." If the final product founders on the shop floor, however, the negative ramifications are out of the ingredient brander's control. "You forfeit control to somebody else," says Mr Andrew Seth, of Added Value, the brand consultancy. "Somebody else has control of the final product and the ultimate level of satisfaction that is being assessed."

In an attempt to maintain end-product control, Teflon, the anti-stick coating made by DuPont, has long vetted its customers in the kitchenware and fabric markets before selling its product to them.

ICI has not linked the use of its trademark with quality thresholds. "We are not in any way saying that, by the use of this mark, ICI has reviewed the manufacturing process for the spa or the tub," says Mr Hotchkiss.

Regardless of whether the ingredient-maker monitors its customers' manufacturing standards, enthusiasts say a successful ingredient can eventually be equated with quality in consumers' minds. "To the consumer, Nutrasweet is not aspartame [the chemical name for the sweetener]. Other people sell aspartame - we are the only people who sell Nutrasweet," says Mr Mitchell. "Our product is a combination of an ingredient and a customer image, which gives us an advantage in the marketplace."

This advantage, says Mitchell, means Nutrasweet's customers want to buy the product in order to win favour with their customers.

For ICI in Europe an advantage cannot be built from scratch. "We cannot become the Intel of acrylics in the highly developed market of Europe," says Mr Ellis.

The group is developing a recyclable acrylic which could be signposted on labels provided with the end products. "Our customers need evidence that using the raw-material brand really adds value to their brand," says Mr Ellis.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5933 (please set fax to 'time'), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

## Effectiveness of UK bilateral aid accepted

From Mr Angus Hone.

Sir, As a 50-something development economist basking in the joys of early severance caused by the downsizing of the Natural Resources Institute, Chatham (an Overseas Development Administration agency), it might be expected that I would endorse Mrs Glens Kinnock's views (Letters, February 22) on aid. I most emphatically do not. The personal commitment of Baroness Chalker, the UK's

overseas development minister, to the overseas aid budget and the effective management of the bilateral reserve is not in decline. The pound sterling's decline in value against the US dollar and the Ecu increases the cost of the UK's multilateral commitment to World Bank, United Nations and the European development agencies. The remaining amounts left to the bilateral aid budget are best

concentrated in Asia and sub-Saharan Africa where the greatest concentrations of poor people live.

Baroness Chalker has also pioneered very successful joint programme between the ODA and the non-governmental organisations and aid charities. The effectiveness of UK bilateral aid is generally accepted.

Finally, Mrs Kinnock should remember that it was not Baroness Chalker, but Douglas

Hurd, when foreign secretary, who insisted that the ODA permanent secretary (Sir Timothy Lankester) sign the Pagan Dam's financial funding.

It is hoped that the real cuts for 1996-97 and 1997-98 will be restored as quickly as possible, but Mrs Kinnock should not shoot our pianist.

Angus Hone, 52 Ridgmont Gardens, London WCL1 8UK

## Bypass not the answer

From Mr A. Russell Smith.

Sir, Barry Riley has it wrong (Weekend Money: "Vote now we'll bill you later", March 2/3).

People are not anti-growth per se; they are anti-growth when the environmental cost is too great. His comments about a "modest road bypass around the Berkshire town of Newbury" are well off the mark. This road would cross and damage three sites of special scientific interest, nature reserves, a registered battlefield, an area of outstanding natural beauty and 12 sites of archaeological importance.

Almost 70 per cent of the daily 50,000 vehicles in Newbury town are local and, under traffic forecasts, a bypass would provide relief on the existing A34 in Newbury for just five to seven years. Alternative (and cheaper) solutions exist and should be applied but the Highways Agency appears to have a closed mind.

As the owner of a haulage company which regularly uses the A34 en route to the continent, I have a vested interest in income to minimise congestion. The proposed bypass, however, is not the answer; it will not solve Newbury's traffic problem and the environmental cost is, in any case, too high.

A. Russell Smith, chairman, Interoute, 98 Narrow Street, London E14 6BP, UK

## Time for Asean arms control co-operation

From Mr Oliver Sprague.

Sir, Instability in south-east Asia is not the only possible consequence of the rapid build-up of conventional arms in the region ("Fear of Beijing fuels Asean arms spending", February 28). Technology transfers and joint production agreements are an increasingly integral part of arms deals with countries in the region. This has aided the development of indigenous defence production and increases the likelihood that arms containing western technologies will be exported to destinations proscribed by western countries. Witness, for

example, negotiations between Indonesia and Iran to supply Iran with helicopters incorporating French components.

There is a timely opportunity in the wake of the EU-Asia summit to explore how best to encourage Asean states to co-operate fully with evolving international control initiatives, such as the soon-to-be-established Wassenaar Arrangement and the development of the UN Register of conventional arms. Such efforts will be essential if the risks of unregulated proliferation in the near future are to be alleviated.

In the meantime, and in light of the promised review of arms export controls following publication of the Scott report, the UK, alongside its European partners, must establish clearer rules governing the export of arms and technology transfers to south-east Asia which will prevent the introduction of new and destabilising military technologies into the region.

Oliver Sprague, researcher, Safeworld, 33-34 Alfred Place, London SW1E 7DP, UK

## Elements of pension costs

From Mr Adrian Jack.

Sir, Samuel Brittan ("Dilemmas in pension reform", February 26) errs when he says that all pensions (even funded ones) have to be paid from present national income.

One could imagine someone who throughout his working life bought tins of baked beans, which on retirement he started to consume. Such a person would not be reliant on income earned by the next generation of workers.

If a pensioner has a funded pension, the income he draws consists of two elements: the income of the fund and the withdrawal of capital. This latter element corresponds to the pensioner eating his tins of beans.

What will actually occur is that the cost of capital will vary between generations. Just

as if the baked-bean pension became a mass phenomenon, the price of baked beans would be likely to rise, so too investing in capital (for example, equities) becomes more expensive as more workers buy funded pensions for their old age.

Once the savers start to draw on their pensions, the price of baked beans is likely to fall as pensioners (possibly wanting to vary their diet) try to swap their tins for something else.

Equally the value of equities, land and other forms of capital will drop when fundholding pensioners start to cash in their investments.

Adrian Jack, 2 Paper Buildings, Temple, London EC4Y 7ET, UK

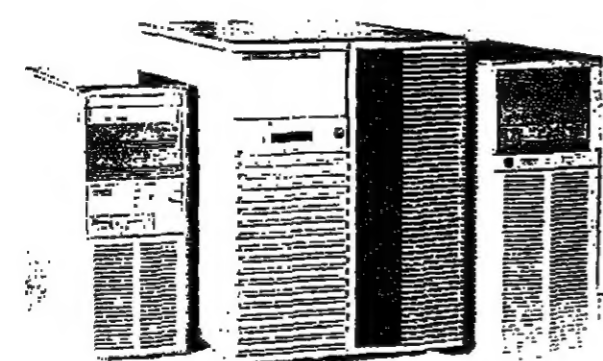
## Quotas met

From Mr Jean-Michel Baer.

Sir, Your brief article "France's TFI misses EU quotas" (February 21) is misleading. TFI did not in fact fail to meet the EU quotas of European works but did, according to the French CSA, fail to meet the more stringent European works quotas laid down in French law. The Commission's monitoring of the "television without frontiers" directive shows TFI met the "majority proportion of European works" as defined in the directive and in fact exceeded comfortably this proportion in the 1991 to 1994 period.

Jean-Michel Baer, director-general, European Commission, Directorate General X, Rue de Loi 200, B-1049 Brussels, Belgium

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"FIRST PLACE FOR PRICE/PERFORMANCE. SHARED SYSTEMS MIX FOR SYSTEMS UNDER \$50K. PRIORIS XL SERVER 5100DP." AIM Technology, Hot Iron award, September 95.

## FINANCIAL TIMES

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Tuesday March 5 1996

## Unity against the bombers

Israel and the Middle East peace process are in crisis as a result of Sunday's suicide bombing of a Jerusalem commuter bus by Hamas, the Palestinian Islamist group, and yesterday's horrific blast at a Tel Aviv shopping mall. An identical bus attack a week earlier eliminated the 16-point lead Mr Shimon Peres, prime minister of Israel's Labour-led coalition, held over Mr Benjamin Netanyahu, leader of the right-wing Likud opposition, ahead of general elections on May 29. But the carnage of the past two days has left Mr Peres fighting for his political life. The security-obsessed Israelis, who have suffered nearly 500 deaths from terror attacks since the 1993 Oslo accords with the Palestinians, may decide in May's elections that the peace deals he has struck make them unacceptably vulnerable.

The government must do everything in its power to prove this conclusion false. The trouble is that the Israeli opposition has little incentive to help. Mr Netanyahu is against the 1993 deal, which is already extending Palestinian self-government from Gaza and Jericho into the main cities of the Israeli-occupied West Bank. He says he will not treat with Mr Yasser Arafat, the PLO leader elected in January as president of the Palestinian authority, and will return the territories to Israeli army control. Mr Peres's answer has been to declare all-out war on Hamas, and to demand Mr Arafat capture and hand over those behind the

attacks. His government, and Mr Arafat's authority, are carrying out mass arrests, while Israel plans collective punishments like the demolition of the bombers' family homes, as well as a network of fences and checkpoints to "separate" Arab and Jew.

Given the pressure Mr Peres is under, these measures are understandable. But there is little to suggest they will deter men determined to die in order to wreck the autonomy accords, while Likud's prescriptions would only lead back to a more generalised conflict with the Palestinians. There are no quick fixes.

Mr Peres's more difficult job is to convince Israelis their future security depends on making peace with the Palestinians work, while acting vigorously against all those who oppose it by force — a political as well as security task, in which Mr Arafat must share.

This means sticking to the Oslo framework, including the release of Palestinian prisoners which was supposed to have taken place in May 1994 under the first stage of the accord. Mr Arafat should continue his negotiations with the majority in the Hamas movement willing to operate within the Oslo accord, and open up his cronystaffed administration to his opponents, Islamist or secular.

Such measures would garner the legitimacy for both Israel and the Palestinian authority to strengthen intelligence coordination, and crack down pitilessly on the hold-outs — a strategy that would deserve bipartisan support.

## Muddled waters

Voters are an unpredictable bunch, and they seldom deliver tidy results when they are wanted. Thus it was in Spain on Sunday.

The Spanish electorate has not given Mr José María Aznar, leader of the conservative Popular party, the "sufficient" majority he needed to govern the country alone, as the markets expected. Instead, it has muddled the political waters. The Spanish parliament will be more evenly divided than it was before the poll. The minority Catalan and Basque regional parties, and tiny groups on the Canary Islands and Galicia, are left holding the balance of power between right and left.

The result is a disappointment for Mr Aznar, who must now negotiate a deal with Mr Jordi Pujol, the Catalan leader, in particular. He will have to rebuild a lot of bridges to do so, for he fought hard during his campaign against any extension of regional autonomy. Indeed, that was part of his undoing: the PP flapped badly in the pro-autonomy regions.

Uncertainty about the concessions Mr Aznar may have to make, and what they may cost the already overburdened budget, is likely to leave the markets unsettled. A government based on fragile consensus is much less likely to be able to take the tough spending decisions required to bring the budget deficit under control. That makes Mr Aznar's commitment to try to meet the Maastricht convergence criteria for European eco-

nomic and monetary union even less likely to succeed.

On the other hand, Convergència i Unió, the Catalan party, shares much of the PP economic philosophy: it is pro-business, serious about cutting the deficit, tackling the extravagant pension system, and reforming inefficient state enterprises. Indeed, it may be even more serious than the PP, which was notably silent on serious budget-cutting plans during the election campaign. If they do form a coalition, they will at least be pulling in the same economic direction.

If the outcome is messy, it may well be what the Spanish electorate wanted. A coalition government does not readily permit the arrogant exercise of power — a principal accusation against the Socialist government of Mr Felipe González. The Spanish people undoubtedly want cleaner and more transparent government. They have also spurned the extremes. They will be looking for a centrist policy from Mr Aznar — as he has promised.

As for Mr González, he emerges with surprising credit despite coming second. He managed to turn a predicted rout into a very narrow defeat. He will remain a powerful force in Spanish politics, as opposition leader. But his passionate personal commitment to European integration will be missing. Mr Aznar may also be committed to the EU, but as yet he is a much less imposing figure.

## Major's gesture

Mr John Major's promise of visa-free access to the UK for virtually everybody in Hong Kong is unequivocally to be welcomed. Given the political realities at home, including the government's tiny parliamentary majority and opposition to the move within the cabinet, it took some courage to make such an undertaking.

Nevertheless, his pledge was the minimum gesture needed to maintain confidence among Hong Kong residents, and credibility in the eyes of Beijing. To have done anything less would have made a mockery of Britain's claim that it will maintain an interest in the welfare of Hong Kong's people after the handover to China. Unless Britain itself had accepted fully the travel documents of the Special Administrative Region of China, which Hong Kong will become in July 1997, it could hardly have expected other countries to do likewise.

Moreover, this gesture alone will not put to rest Hong Kong's fear that it will eventually be left to its fate. Visa regimes are easily changed, and London is reserving the right to impose a visa requirement if it sees evidence of backdoor immigration.

To improve confidence further, London should now make clear that its concession on visas is irrevocable. Britain also needs to step up its international campaign for generous treatment of Hong Kong residents after June 30 1997. One argument is pragmatic: any

country which looks askance at the SAR travel documents is likely to find that China places similar restrictions on its own nationals. More fundamentally, all industrial countries have an interest in maintaining, as far as possible, the free exchange of persons and services which has underpinned Hong Kong's economic boom.

This argument has a broader application. Britain has no hope of influencing events in Hong Kong after 1997 unless it is backed up by a much larger international community — including the United States, the European Union and Japan — which wants to see the territory's prosperity and way of life preserved.

Mr Major has stated boldly that if China acts on its pledge to abolish Hong Kong's Legislative Council, that will be a breach of the Sino-British agreement on the territory's future. Apart from appealing to an international court which China does not recognise, there are not many sanctions at Britain's disposal to back these words up.

But by underlining its own commitment to the Hong Kong people, the government has taken a step in the right direction. The next step is to persuade as many other countries as possible to share that commitment — and to unite in reminding China's leaders that Hong Kong's prosperity is central to their interests, and that it will not continue if the territory does not remain free.

## The house that Jack built

The chairman of General Motors tells Haig Simonian about his mission to refocus the group on its core motor business while introducing manufacturing methods which directly gear production to demand

he dials above the 24 Art Deco elevators which line the lobby at General Motors, the world's largest car company, no longer whirr to the constant rhythm of thousands of salaried men going to work each day. Three years ago, Mr Jack Smith became chief executive, with a mission to refocus the giant company — which has interests from electronics to satellite television — on the core motor business. He started with the 13,000 employees of the 14-storey Detroit head office, whittling them down to 1,000 specialists, such as lawyers and tax accountants.

Operating responsibilities that were previously centralised in Detroit have been devolved to GM's operating divisions which have been given their own balance sheets and budgets.

"We're not confusing who's responsible for a business or second-guessing any more," says Mr Smith, 58, in a typically staccato explanation.

The pruning is not over. Between now and July, GM will spin off Electronic Data Systems, the hugely successful systems integration company acquired from Mr Ross Perot, its founder, in 1986.

The acquisition of EDS — and Hughes Electronics, the defence group — was part of an expensive diversification masterminded by Mr Roger Smith, GM's chairman during most of the 1980s. The aim was to reduce the group's dependence on the highly cyclical US car market and exploit potential synergies with other industries.

But the acquisitions took the group away from its Michigan roots and drained it of cash. When the US economy went into recession at the start of the 1990s, GM accumulated three years of losses before Mr Robert Stempel, Roger Smith's successor as chairman, was ousted in a boardroom coup.

Jack Smith was brought in as chief executive shortly after. In recognition of his achievements in grappling with the group's ungainly structure, he was rewarded on January 1 with the additional job of chairman, restoring a company tradition of combining both positions in one person.

"Picking up the chairman's title didn't change much compared with before," he says. "My job hasn't altered significantly." As a finance man by background — he spent most of his career in GM's financial hierarchy — Mr Smith says he will consider any spin-off or flotation that could enhance shareholder value. While he has no more surprises up his sleeve, he admits there may be value to unlock in other parts of GM's non-automotive empire.

"These things are possible," he says. "It's awfully hard to know where the technology is headed; awfully hard to estimate the value of these technologies."

An indication of the potential that may still be lurking in the group was given by the sale in January of a 25 per cent stake in DirecTV, the satellite broadcasting subsidiary of Hughes Electronics, to AT&T, the biggest US long-distance telephone company, for \$138m (£80m). DirecTV has yet to make a profit, but the deal put an estimated value of \$5.5bn on the nascent satellite TV operation.

Despite the distractions of diversi-

fication in the 1980s, GM remains a behemoth in the automotive industry that dwarfs its rivals. Last year, it delivered 8.3m vehicles — almost one in five of the cars and trucks sold in the world. Its 1995 turnover of almost \$170bn exceeded the gross national product of Indonesia.

Apart from its seven US car brands, GM owns or manages Vauxhall in the UK, Opel in Germany, Saab in Sweden and Holden in Australia. It is the biggest car and truckmaker in South America and owns almost 38 per cent of Isuzu, the Japanese vehicle-maker. It also has a growing presence in southeast Asia, including a \$1bn joint venture in China, Delphi, its components subsidiary, is the biggest car parts group in the world.

Managing such a giant in a highly competitive business is the subject of intense debate among management theorists. Last year, Ford, the second-largest US carmaker, decided to tear up its organisation chart and move away from management by region or subsidiary. Its Ford 2000 plan involves a corporate structure based on five operational centres, which will take responsibility for different types of vehicle that can be sold almost anywhere with relatively inexpensive local variations.

Mr Smith admits that GM has some duplication of effort globally. In the small-to-medium-sized car sector, development teams in Europe and the US have been working on competing models — the Astra in Europe, for example, and the Geo in the US. But he believes the group can compete without the sort of upheaval seen at Ford which is too risky at a time when GM is still streamlining parts of its structure. "We think we can get to the same place [as Ford]," he says. "We can have as much effort out."

"We have really restructured our

north American operations," he adds. "One thing we don't want to do is to take our eyes off the ball in getting that operation fixed."

Almost two years ago Mr Smith created a global strategy board, bringing together the heads of GM's north American and international operations and components division. It meets quarterly to allocate responsibilities for future projects on a global basis.

Mr Smith admits GM's more modest approach compared with Ford makes it more difficult to gain the

full benefits of "globalising" the company. "We want to do it within our existing structure," he says. "Will we always be that way? I can't tell you we will, but we are for the moment."

In the US market, Mr Smith has set up a new North American Operations subsidiary to co-ordinate GM's car brands. One object will be a long-overdue differentiation of the group's four main brands to prevent senseless duplication of models and rivalries between brands.

The impetus to improve sales and



marketing follows a drive to cut production costs. All the US Big Three carmakers are belatedly trying to break away from the prodigal practices of the past. It was normal, for example, for a carmaker to build an entirely new wing on a factory to accommodate a model change, rather than retrofit an existing product line.

Mr Smith recognises some old habits in the car industry die hard. He describes as "a mind-set" the tendency to maximise production and then use costly incentives to shift cars if inventories get too high. Moving to practices more common in Europe and Japan, where cars are made in response to demand rather than simply to raise output, "would take a tremendous amount of inventory out of the system". But he concedes this will take time: "We're at the very beginning of it," he says.

Although Chrysler, the smallest of the Big Three, is widely acknowledged to be ahead in cost reduction, Mr Smith says GM has the lead in sales and marketing. Much of the expertise has come from GM's Saturn car division, built under Roger Smith at a greenfield site in Tennessee (and called "Roger's folly" by its detractors). This has revolutionised US car retailing by requiring dealers to build new premises to standard designs and sell cars at fixed prices rather than do deals on every sale.

But Saturn has also pioneered new management practices, sweeping away the confrontational management structure of the traditional Detroit car plant and introducing the Japanese-style approach of consultation and co-operative working. The experience is being transferred to other divisions, starting with Oldsmobile, a process dubbed "Saturnisation".

Mr Smith says GM is becoming more flexible in response to changing consumer tastes, making more of the alternatives to traditional saloon cars that account for about 43 per cent of the US car market. This year, it is converting three former car factories to build minivans (called multi-purpose vehicles outside the US) or sports utility vehicles. "We survey this pretty closely and our judgment is that the long-run trend is still rising," he says. "Directionally, we don't feel there is a lot of risk in moving towards more such vehicles."

Converting old factories to build higher margin products such as minivans should help GM to improve its margins this year. But much will depend on the market. Mr Smith is confident demand will reach about 15.3m units — slightly ahead of 1995.

He will not predict whether 1996 will see a further rise in the group's fortunes. "It's too soon to zero in on it," he says. "There's so much uncertainty."

Much will depend on the success of GM's eight main US product changes this year. Launches can seriously disrupt production, are invariably expensive, and carry the additional risk of costly discounts to shift old stock.

But analysts are cautiously optimistic, partly because of the windfalls arriving on the non-car side. "Roger's follies may be turning into Jack's good fortune," says one.

## OBSERVER

## Noughts and crosses

John Major's diplomatic mission in Hong Kong did, after all, reap financial dividends for the British government. Not much, it must be said — but then every little helps.

Martin Lee, leader of the main pro-reform party in the territory, recently met Malcolm Rifkind, the UK's foreign secretary, that the British prime minister would not allow Hong Kong residents without British passports the right of visa-free entry into the UK.

According to Chris Patten, the colony's governor, Rifkind took up Lee's wager. Indeed, so confident was Rifkind of winning that he offered Lee odds of 10-1. Now that Major has yielded ground on the visa question, Patten confidently predicts that Lee will pay up the £50 he owes. Ministers are not taking bets on how long the Chinese will allow Lee and the other non-conformists in the Hong Kong legislature to hang around, once the colony returns to them in July 1997.

Major might have gone up in the estimation of Hong Kong's pro-democracy activists but not much. Before his meeting with the local legislature, one such activist, Emily Lau, said gave him zero out of 100 for his services for Hong Kong. After hearing him, she increased that to 10. "Don't be so grudging, Emily," Major chided

her. "All right," said Lau, "I'll give you 11."

## Low-calibre stuff

President Kiro Gligorov of Macedonia is back on the job, apparently fully recovered from injuries received last October.

When a car bomb exploded in the centre of Skopje as he was driving to his office.

Gligorov, 79, lost the sight of one eye as a result. Despite that, he has attended the Foreign Ministry's annual boat-hunt on Mount Vodno, in which members of Macedonia's fast-growing diplomatic community also participated.

Back in the dark days of communism, boat-hunting was a favourite pastime of Balkan leaders, who laid on lavish shooting parties for foreign diplomats. They're clearly out of practice. To the chagrin of a clutch of EU ambassadors, top marksman in the Macedonian shoot was a local, Ambassador Lubo Arsovski. Taking a weekend off from setting up Macedonia's diplomatic office in Athens, he bagged a total of six boars. That's b-o-a-r, not b-o-r-e.

## Spineless

Lucky old Egyptians! They're being made an offer they might find difficult to refuse. Muammar Gaddafi, the charismatic Libyan leader, is asking them not \$10, not

\$5, not even \$1, but the equivalent of just \$0.30 for a complete package of his literary works, together with a full-colour, autographed poster of the author.

At such knock-down prices it's perhaps not astonishing that copies of his collection of short stories, *The Village, The Village, The Earth, The Earth and the Suicide of the Astronaut*, and the Green Book, (his own political and religious manifesto), have been leaving the International Cairo Book Fair faster than a Cruise missile. Libyan officials say that 100,000 copies of the books have been snapped up.

## Tobacco road

Peter Wilmont, 49, who lost his job as the European Commission's director-general in charge of customs and taxation, has not taken long to refocus. He has been taken on as a consultant by BAT Industries. Taxation is a big issue for tobacco companies and governments do not always tax the weed in the most sensible way.

Wilmont should be a good sounding-board for BAT in its relations with tax authorities around the world. That said, one of the reasons that companies hire ex-bureaucrats like Wilmont is to get access to the corridors of power. Given that Wilmont quit after making it clear he could no longer work with his boss, Italian commissioner Mario Monti, he may

be less welcome in Brussels than some of his former colleagues.

## On a roller

Vietnam may still be a developing country, but nine years of economic reform is pushing it up the Rolls-Royce index.

The free-wheeling Ho Chi Minh City is reckoned to boast 200 or so millionaires who have thrived under the communist country's perestroika; now some of them are beginning to flash their money around. Rolls-Royce has recently achieved its first sales, to two local Vietnamese businessmen who have joint ventures with foreign investors.

One snapped up a "touring limousine," a 20-foot "stretched" model complete with television set and walnut-fronted cocktail cabinet. Price? To you, about \$400,000. The other bought a Silver Spur, a snip at \$210,000. A tidy sum, given local average monthly per capita income of \$810.

## It's suitcase time

Banco Nacional de Angola (Angola's central bank) devalued the official rate of the readjusted kwanzas to 31.784 per single US dollar, from 6.024. Bad enough, you might think. Think again. The street price is about 50,000 per dollar. Round numbers are so much easier.

## Financial Times

## 100 years ago

The US and Spain Washington: The Senate Committee on Foreign Relations at its meeting today had under discussion the resolution passed to it by the House of Representatives in reference to Cuba, and found itself unable to agree upon it. The committee was divided in sentiment, the majority of the members holding that the House resolution was not so strong as that of the Senate, and also that its language was ambiguous. The second clause of the resolution says: "The only permanent solution of the contest equally in the interests of Spain and the people of Cuba, would be to establish a Government by the choice of the people of Cuba."

## 50 years ago

Anglo-French talks go well The discussions between London and Paris for the conclusion of a new financial and trade pact in the place of the one that expired on 28th February are understood to be making good progress. Agreement may be expected in a few days. The ill-feeling created by the failure to come to an understanding before the old agreement expired appears to have been somewhat exaggerated by press comments on both sides of the Channel.

